

TIM PARTICIPACOES SA

Form 20-F/A

September 15, 2011

As filed with the Securities and Exchange Commission on September 15, 2011

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

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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, 2010

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)

\_\_\_\_\_  
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TIM Participações S.A.  
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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

We are amending our Annual Report on Form 20-F for the year ended December 31, 2010 (the “Annual Report”) as originally filed with the U.S. Securities and Exchange Commission (the “SEC”) on June 30, 2011 to make rounding adjustments and to correct certain typographical errors, including in “Item 3. Key Information–A. Selected Financial Data”, “Item 5. Operating and Financial Review and Prospectus”, the Report of Independent Registered Public Accounting Firm issued by Ernst & Young Terco Auditores Independentes S.S. and pages F-5, F-20 and F-21 of the Consolidated Balance Sheets presented in “Item 18. Financial Statements.”

Other than as set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in any other item of the Annual Report as originally filed with the SEC. As a result, this Form 20-F/A does not reflect any events that may have occurred after the Annual Report was filed on June 30, 2011.

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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.

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

Presentation of Financial Information

We maintain our books and records in Reais. We prepared our consolidated financial statements included in this annual report in accordance with the International Financial Reporting Standards – IFRS, as issued by the International Accounting Standards Board – IASB (“IFRS”). They are the first financial statements prepared by TIM Participações S.A. presented in accordance with IFRS. The consolidated financial statements have been prepared under the historical cost convention and the derivative instruments are measured at fair value with the resulting effects reflected in the profit and loss accounts.

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

The first financial statements of the Company prepared following IFRS issued by the IASB were those as of and for the year ended December 31, 2010 which were filed with the Comissão de Valores Mobiliários ( or “CVM”), the local securities regulator in Brazil and made publicly available. The selected financial information for the Company included in “Item 3A. Key Information—Selected Financial Data” should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and “Operating and Financial Review and Prospects” appearing elsewhere in this Annual Report.

Until December 31, 2009, our consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil (“Brazilian GAAP”). Brazilian GAAP is based on the Brazilian Corporate Law No. 6,404 of December 15, 1976, as amended, and included the provisions of Law No. 11,638/07 and Law No.

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11,941/09; the accounting standards issued by the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade – “CFC”); the accounting standards issued by the Accounting Standards Committee (Comitê de Pronunciamentos Contábeis – “CPC”); and the rules and regulations issued by the CVM. After the adoption of CPCs No.15 to 43, Brazilian GAAP does not differ from IFRS, for preparation of consolidated financial statements. The comparative figures with respect to 2009 have been restated to reflect adjustments made as a result of the adoption of IFRS. Reconciliations and descriptions of the effect of the transition from Brazilian GAAP to IFRS are given in Note 2d to our consolidated financial statements.

On December 30, 2009, TIM Participações S.A. acquired Holdco Participações Ltda. (“Holdco”), which held 100% of the ownership of the telecommunications company Intelig Telecomunicações Ltda. (“Intelig”), from JVCO Participações Ltda. (“JVCO”) in exchange for a 5.14% participation on TIM Participações’ capital stock. We have included Intelig in our results of operations since November 30, 2009. Because Intelig is included in all 12 months of our 2010 results but only one month of 2009 the results from 2010 period are not fully comparable to those of the 2009 period. In order to facilitate analysis of the evolution of our business from 2009 to 2010 we have provided certain pro forma 2009 financial information in this annual report on Form 20-F that reflects the acquisition of Intelig as if it had occurred on January 1, 2009. This pro forma information has been prepared by combining the results of operations of each of Intelig and TIM Participações. Intelig and TIM Participações had no material intercompany transactions during 2009. Accordingly, no adjustments have been made to the combined Intelig and TIM Participações results in preparing the pro forma information.

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

Solely for the convenience of the reader, we have translated some amounts included in “Item 3A. Key Information—Selected Financial Data” and elsewhere in this annual report from reais into U.S. dollars using the commercial selling exchange rate as reported by the Banco Central do Brasil or Central Bank of Brazil (the “Central Bank”) at December 31, 2010 of R\$1.666 to U.S. \$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the real amounts represent or have been or could be converted into U.S. dollars as of that or any other date. See “Item 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, size and trends;
- characteristics of competing networks’ products and services;
- estimated demand forecasts;
- growing our subscriber base and especially our postpaid subscribers;
  - development of additional sources of revenue;
  - strategy for marketing and operational expansion;
  - achieving and maintaining customer satisfaction;
- development of higher profit margin activities, attaining higher margins, and controlling customer acquisition and other costs; and
- capital expenditures forecasts, funding needs and financing resources.

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

- 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 customer churn rate we experience;
- changes in official regulations and the Brazilian government's telecommunications policy;
  - political economic and social events in Brazil;

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- increasing competition in the Brazilian telecommunications industry;
  - 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;
  - our ability to use and maintain our tradename;
  - 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 included herein for the year ended December 31, 2010 have been audited by Pricewaterhousecoopers Auditores Independentes. The report of Pricewaterhousecoopers Auditores Independentes on the consolidated financial statements appears elsewhere in this annual report. Considering the adoption of International Financial Reporting Standards in 2010, Ernst & Young Terco Auditores Independentes S/S have audited the January 1, 2009 balance sheet as of the IFRS transition date.

The first financial statements of the Company prepared under IFRS were those as of and for the year ended December 31, 2010, which contain comparative amounts related to year ended December 31, 2009, also prepared under IFRS. These financial statements were filed with the CVM, the securities and exchange commission in Brazil, and made publicly available. Until December 31, 2009, in previous Forms 20-F, our consolidated financial statements were prepared in accordance with Brazilian GAAP. In this section we present amounts recorded under IFRS, derived from our first IFRS financial statements.

The summary financial data prepared in accordance with IFRS and Brazilian GAAP (presented in previous Forms 20-F) is not comparable. The following table presents a summary of our historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, real amounts as of and for the year ended December 31, 2010 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2010 (as reported by the Central Bank of R\$1.6662 to U.S. \$1.00). See “Item 3.A Key Information – Selected Financial Data – Exchange Rates” for information regarding exchange rates for the Brazilian Real.

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## Selected Financial Data

Our consolidated financial statements are prepared in accordance with the IFRS.

Until December 31, 2009, our consolidated financial statements were prepared in accordance with Brazilian GAAP. Brazilian GAAP is based on the Brazilian Corporate Law No. 6,404 of December 15, 1976, as amended, and included the provisions of Law No. 11,638/07 and Law No. 11,941/09; the accounting standards issued by the CFC; the accounting standards issued by the CPC; and the rules and regulations issued by the CVM. After the adoption of CPCs No. 15 to 43, Brazilian GAAP does not differ from IFRS as regards the preparation of consolidated financial statements. The comparative figures with respect to 2009 have been restated to reflect adjustments made as a result of the adoption of IFRS. Reconciliations and descriptions of the effect of the transition from Brazilian GAAP to IFRS are given in Notes 2b, 2c and 2d to our consolidated financial statements.

The following tables present a summary of our selected financial data at the dates and for each of the periods indicated. You should read the following information together with our consolidated financial statements and the notes thereto included elsewhere in this annual report and with “Item 5. — Operating and Financial Review and Prospects.”

(All amounts recorded under IFRS)

	December 31, 2010 U.S. \$ (thousands of reais or U.S. dollars, unless otherwise indicated)	December 31, 2010 R\$	December 31, 2009 Pro-forma (1) R\$	December 31, 2009 R\$
<b>Income Statement Data:</b>				
<b>IFRS</b>				
Net operating revenue	8,676,900	14,457,450	13,747,028	13,158,134
Cost of service provided and goods sold	(4,384,688)	(7,305,767)	(7,142,927)	(6,672,369)
Gross profit	4,292,212	7,151,683	6,604,101	6,485,765
<b>Operating revenue (expenses):</b>				
Selling expenses	(2,697,520)	(4,494,608)	(4,501,908)	(4,436,751)
General and administrative expenses	(605,386)	(1,008,694)	(1,133,804)	(1,033,438)
Other revenue (expenses), net	(269,024)	(448,247)	(460,793)	(462,114)
Operating profit before financial income (expense)	720,282	1,200,134	507,596	553,462
Financial income (expenses)	(147,315)	(245,457)	260,601	(245,115)
Income before income tax and social tax contribution	572,967	954,677	768,197	308,347
Income tax and social contribution	754,434	1,257,038	33,026	33,026
Net income for the year	1,327,401	2,211,715	801,223	341,373
Net income per share	1.58	2.63	-	0.40
<b>Number of shares outstanding:</b>				
Common shares (in millions)	843	843	-	843
Preferred shares (in millions)	1,632	1,632	-	1,632

Dividends per share	0.1204	0.2006	0.1251	0.1251
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	2010 U.S.\$	2010R\$	2009R\$	January 1, 2009-R\$
	(thousands of reais or U.S. dollars, unless otherwise indicated)			
<b>Balance Sheet Data:</b>				
Property, plant, equipment and intangibles, net	6,241,490	10,399,571	10,584,484	9,741,375
Total assets	11,625,766	19,370,852	17,922,455	16,109,896
Loans and financing	1,941,346	3,234,670	4,159,958	3,549,219
Shareholders' equity	6,182,216	10,300,809	8,577,360	7,695,618
Capital stock	4,890,827	8,149,096	8,149,096	7,613,610
<b>Cash Flow Data:</b>				
<b>Operating Activities:</b>				
Net cash provided by operations	1,735,958	2,892,453	2,909,064	
<b>Investing Activities</b>				
Net cash used in investing activities	(881,158 )	(1,468,186 )	(2,418,548 )	
<b>Financing Activities:</b>				
Net cash provided (used) in financing activities	(876,881 )	(1,461,059 )	390,965	
Increase (decrease) in cash and cash equivalents	(22,081 )	(36,792 )	881,481	
Cash and cash equivalents at beginning of year	1,448,220	2,413,024	1,531,543	
Cash and cash equivalents at end of year	1,426,139	2,376,232	2,413,024	

(1) The pro-forma information reflects the Intelig acquisition as if it had occurred on January 1, 2009. See "Presentation of Financial Information"

### Brazilian Economic Environment

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

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.

In 2010, the Brazilian economy recovered from the global financial crisis of 2008. In the last few years, the Brazilian financial system demonstrated strength to face a global crisis through a robust domestic market and price stability. Hence, the country was able to create a new pattern of economic expansion, more consistent and sustainable. The Brazilian economy performed very well in 2010, with the GDP growing by 7.5%, reflecting primarily the fast growth of late 2009 and early 2010, reaching a value close to U.S. \$ 2.024 trillion. However, the government and the market have already shown concerns about inflation spurred by strong economic activity.

The official inflation rate in Brazil (Índice de Preços ao Consumidor Amplo, or IPCA) ended 2010 at 5.91%, the highest rate since 2004. The figure was above the Central Bank's target of 4.5%, but still within the range of 2% (up or down) considered acceptable by the government. However, to keep expectations at safe levels, the government initiated a process of monetary contraction by increasing the SELIC to 10.75% p.a., from 8.75% p.a in 2009.

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



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	For the Year Ended December 31,					
	2008		2009		2010	
GDP growth (1)	5.1	%	(0.2	%)	7.5	%
Inflation (IGP-M) (2)	9.81	%	(1.72	%)	11.32	%
Inflation (IPCA) (3)	5.91	%	4.31	%	5.91	%
DI Rate (4)	13.49	%	8.61	%	10.64	%
TJLP (5)	6.2	%	6.0	%	6.0	%
Appreciation (devaluation) of the real against the U.S. dollar	(32.0	%)	25.4	%	4.3	%
Exchange rate (closing)—R\$ per U.S. \$1.00	R\$2.337		1.7412		1.6662	
Average exchange rate—R\$ per U.S. \$1.00 (6)	R\$1.837		1.9935		1.7614	

- (1) The Brazilian GDP for 2008, 2009 and 2010 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, 2008, 2009 and 2010.
- (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, 2008, 2009 and 2010.
- (4) The DI rate is the average inter-bank deposit rate performed during the day in Brazil (accrued as of the last month of the period, annualized).
- (5) Represents the interest rate applied by BNDES in long-term financings (end of the period).
- (6) Average exchange rate on the last day of each year.

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

## Exchange Rates

We 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."

Since 1999, the Central Bank has allowed the real/U.S. dollar exchange rate to float freely, and, since that time, the real/U.S. dollar exchange rate has fluctuated considerably. The real depreciated against the U.S. dollar by 15.7% in 2001 and 34.3% in 2002. Although the real appreciated by 22.3%, 8.8%, 13.4%, 9.5% and 20.7% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008, as a result of the international financial and economic crisis, the real depreciated against the U.S. dollar by 24.0%. In 2009, the real appreciated by 25.5% against the U.S. dollar. In 2010, the real appreciated by 4.3% against the U.S. dollar. On December 31, 2010, the period-end real/U.S. dollar exchange rate was R\$1.6662 per U.S. \$1.00.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments ranged from a daily to a monthly basis, floating exchange rate systems, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian government will continue to let the real float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The real may depreciate or appreciate substantially against the U.S. dollar.

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

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Year	Reais per U.S. Dollar			
	High	Low	Average	Year End
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1556	1.7325	1.9483	1.7713
2008	2.5004	1.5593	1.8375	2.3370
2009	2.4218	1.7024	1.9935	1.7412
2010	1.8811	1.6554	1.7593	1.6662

Month	Reais per U.S. Dollar	
	High	Low
December 2010	1.7117	1.6662
January 2011	1.6912	1.6510
February 2011	1.6776	1.6612
March 2011	1.6757	1.6287
April 2011	1.6144	1.5621
May, 2011	1.6362	1.5801
June, 2011 (through June 28)	1.6030	1.5750

Source: Central Bank/Bloomberg

On June 28, 2011, the selling rate was R\$1.5833 to US\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at June 28, 2011 may not be indicative of future exchange rates.

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

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

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

#### 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 11, 2011, we set out our strategic priorities for the 2011-2013 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.”

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Our 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 our market share;
- increasing and stronger market competition in its principal markets with a consequent decline in the prices of services;
- Our ability to strengthen its competitive position in Brazil for mobile telecommunications;
- Our 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;
- the success of “disruptive” new technologies which could cause significant reductions in revenues to fixed and mobile operators;
  - Our ability to implement operational efficiency; Our 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;
  - Our 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 new Personal Communication Services (“PCS”) providers that have commenced operations in recent years, we are facing increased competition throughout Brazil. We compete not only with providers of wireless services and trunking, but also with providers of fixed-line telecommunications and Internet access services, because of the trend toward the convergence and substitution of mobile services for these and other services and a trend of bundling PCS services with Internet and other services. As a result, the cost of maintaining our revenue share has increased and in the future we may incur higher advertising and other costs as we attempt to maintain or expand our 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 the State of São Paulo.

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

The expansion of 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 efforts and our ability to anticipate and respond to developments in the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. Additionally, we may face competitors with greater access to financial resources 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 to our customers. If we are unable to compete successfully, our business, financial condition and results of operations will be materially adversely affected.

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There were two corporate reorganizations in the telecommunications industry in 2008 with Telemar's acquisition of the preferred shares of Brasil Telecom S.A. and Brasil Telecom Participações S.A., through public offerings on July, 2008. Anatel and the CADE approved the transfer of control of Brasil Telecom to Oi and Telemar on January 8, 2009.

On December 27, 2010, Vivo and Telecomunicações de São Paulo S.A. – Telesp approved a proposal of corporate restructuring consisting of a merger of shares of Vivo in their entirety into Telesp, which aims to unify the shareholding positions of both companies. Vivo was controlled by Brasilcel, a joint venture between Portugal Telecom and Telefónica until September 27, 2010. In September 27, 2010, Telefónica acquired 50% of the shares of Brasilcel from Portugal Telecom SGPS, S.A. and became the only controlling shareholder of Brasilcel.

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 has 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.

In December 2009, Anatel published a Public Consult to auction Band H, which was concluded on February 22, 2010. As a result, Anatel organized an auction for Band H, which took place on December 14, 2010. Anatel gave preferential status to new operators, such as Nextel and CTBC, in a move to increase competition nationwide. Existing operators such as Oi, Claro, Vivo and us formally protested the auction rules, but their complaints were ultimately rejected by the government regulator.

The operator Nextel bid R\$1.2 billion (U.S. \$707 million) and won 11 of the 13 lots involving new 3G frequencies for the 1,900 to 2,100 MHz range, which included coverage areas from populous states, such as São Paulo and Rio de Janeiro, to more remote states, such as Roraima and Alagoas.

This last acquisition by Nextel can lead to enhanced competition, as it will be a new entrant in the mobile market solely providing services on 3G frequencies.

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

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

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

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

We may face difficulties responding to new telecommunications technologies.

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

- the changing regulatory environment, such as the introduction of numbering portability;
- shorter time periods between the introduction of new telecommunication products and their required enhancements or replacements;



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- ongoing improvements in the capacity and quality of digital technology available in Brazil; and
- 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. We cannot assure that we will be able to successfully operate and upgrade our accounting, information and processing systems or that they will continue to perform as expected. Any failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and operating results.

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

Our rate of acquisition of new customers can be negatively affected by market penetration. Additionally, our high churn rates are primarily a result of our competitors' aggressive subsidization of handset sales, adverse macroeconomic conditions in Brazil and our strict policy of terminating customers who do not continue to use our services or do not pay their bills on time. Churn reflects the number of customers who terminate their service terminated during a period, expressed as a percentage of the simple average of customers at the beginning and end of the period. As indicated by 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. Several factors in addition to competitive pressures could influence our rate of acquisition of new customers and their rate of churn, including limited network coverage, lack of sufficient reliability of their services and economic conditions in Brazil.

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

Telecom Italia, through its 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.

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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, 2010, we had approximately R\$3.4 billion in consolidated outstanding indebtedness of which approximately 21% were denominated in foreign currency (USD), and of which all protected with financial instruments to offset exposure to foreign currency. 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 2010 of R\$984 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 losses and significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See "Item 8A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings."

The Secretaria de Direito Econômico (Secretariat for Economic Law, or SDE) recommended on March 25, 2010 that the 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.

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

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

The shareholding structure of our parent company, Telecom Italia S.p.A., has undergone 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 in December 2007, Telco became the holder of 23.6% and it 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.

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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, the CADE approved the aforementioned transaction, conditioned upon the execution of a Performance Commitment Agreement (Termo de Compromisso de Desempenho, or TCD), by Telefónica S.A., Assicurazioni Generali S.p.A. (AG), Intesa Sanpaolo S.p.A., Sintonia S.A. e Mediobanca – Banca di Credito Finanziario S.p.A. 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 enhanced restrictions regarding the information exchange established by CADE, which 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, constitutes 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 operator’s 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 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;

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- 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.

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.



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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 value added services ("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 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. As of the date of this annual report, 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, 2010, 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.

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

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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 – FGV, a private Brazilian foundation. Thus, the prices we may charge for our services may be indirectly impacted by this new index. Anatel begins to regulate the telecommunications industry based on a model that analyzes company costs based on a hypothetical company's costs and other factors. If this new adjustment mechanism, or any other mechanism chosen by Anatel in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

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 completion period

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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 affect on our results of operations.

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

On December 22, 2009 Anatel announced 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;

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

Uncertainty regarding changes by the Brazilian government to the policies or standards that affect these or other factors could contribute to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and of securities issued abroad by Brazilian companies. Moreover, the winners of the presidential, congressional and state elections that took place in October 2010, including President Dilma Rousseff, took office in January 2011, and it is impossible to predict how the policies of such officials will affect the Brazilian economy. These uncertainties and other future events affecting the Brazilian economy could have an adverse effect on us.

Additionally, interruptions in the credit and other financial markets, and the deterioration of the Brazilian and/or global economic environment may, among other effects: (1) have a negative impact on demand, which may reduce sales, operating income and cash flow; (2) decrease consumption of our products; (3) restrict the availability of financing for our operations or investments, or for the refinancing of our debt in the future; (4) cause creditors to modify their credit risk policies and restrict our ability to negotiate any of the terms of our debt in the future; (5) cause the financial situation of our clients or suppliers to deteriorate or (6) diminish the value of our investments.

We are not be able, as of the date of this annual report, to quantify the effects of the application of the transitional tax regime resulting from the convergence of accounting principles adopted in Brazil and IFRS.

In December 2008, the transitional tax regime (Regime Tributário de Transição) was instituted in Brazil in order to update accounting principles adopted in Brazil and align them with IFRS, thereby reducing the fiscal impact of the convergence of the two regimes. The applicability of certain rules under the transitional tax regime has been unclear and in 2010, the transitional tax regime became mandatory, without further explanation by the Brazilian government as to whether amendments to the rules under the regime would be made. During the convergence process of Brazilian GAAP to IFRS, additional rules may be implemented or further interpretation may be provided by the Brazilian government. As a result, as of the date of this annual report, we are not able to quantify all of the effects of the application of the transitional tax regime.

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 2010, the Brazilian government increased the IOF (“Imposto sobre Operações Financeiras”) rate on foreign investments in fixed income securities from 2% to 4%. This change reinforces the government's decision taken in

2009, when these operations began to be taxed by the IOF. This tax increase is intended to decrease speculation on Brazilian markets and to reduce the volatility of appreciation of the real, reinforcing the efforts to discourage foreign investment by increasing transaction costs.

From 2011, the IOF was expanded to tax loans entered into by banks and companies outside of Brazil with a maturity of 90 days. The new rate of 6% will be applied on loans of up to one year period (320 days), the most usual for this type of operation. Before this change, only loans up to 90 days suffered the impact of the IOF, at a 5.38% rate. With this measure, the government intended to stem the flow of foreign capital entering Brazil through loans entered into outside of Brazil and contribute to decrease the value of the U.S. dollar in comparison to the Real. Also in 2011, there was an increase of the IOF rate related to exchange currency from 0% to 0.38%.



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

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

Since the introduction of the real in 1994, Brazil's inflation rate has been substantially lower than in previous periods. According to the General Market Price Index (Índice Geral de Preços do Mercado, or IGP-M), a general price inflation index developed by Fundação Getulio Vargas – FGV, the inflation rates in Brazil were 12.4% in 2004, 1.2% in 2005, 3.8% in 2006, 7.8% in 2007, 9.8% in 2008, negative 1.72% in 2009 and 11.32% in 2010. 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, 4.3% in 2009 and 5.9% in 2010. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Inflation may increase in Brazil in the future. Periods of higher inflation may decrease the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, higher inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. Any decline in our net sales or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our shares and the ADSs.

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

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the real depreciated against the U.S. dollar by 15.7% in 2001, 34.3% in 2002 and 32% in 2008. Notwithstanding the fact that the real has appreciated 11.5%, 8.7%, 17.2%, 25.4%, and 4.3% in 2006, 2007, 2008, 2009 and 2010, respectively, there can be no guarantees as to whether the real will depreciate or appreciate against the U.S. dollar in the future.

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.

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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 2010, the basic interest rate was 10.75%.

On December 31, 2010, all of our indebtedness was either denominated in reais and subject to Brazilian floating interest rates or subject to currency swaps that are tied to Brazilian floating interest rates, such as the Long-Term Interest Rate (Taxa de Juros de Longo Prazo, or TJLP), the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social – BNDES, or BNDES), and the Interbank Deposit Certificate Rate (Certificado de Depositário Interbancário, or CDI rate), an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other real-denominated indebtedness. On December 31, 2010, R\$3,378 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 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.

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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 Futuros 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.

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.

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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.

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



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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, 2010, BM&FBOVESPA's market capitalization was approximately R\$2.6 trillion (U.S. \$1.546 trillion), and the average daily trading volume for the year ended December 31, 2010 was R\$6.48 billion (U.S. \$3.693 billion). The Brazilian capital market shows significant concentration. The top ten shares in terms of trading volume accounted for approximately 55.3% of all shares traded on the BM&FBOVESPA in the year ended December 31, 2010. These

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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. 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, as amended (“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 depositary'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.

### Item 4. Information on the Company

#### A. History and Development of the Company

##### Basic Information

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

Our headquarters are located at Avenida das Américas, 3434-7th floor, 22640-102 Rio de Janeiro, Brazil and our telephone number is +55 (21) 4109-3742 and our fax number is +55 (21) 4109-3314.

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

##### Historical Background

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

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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.

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 CADE. In September 2003, TIM Brasil



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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 Telpe 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.

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.

At a meeting held by the Board of Directors on April 16, 2009, we approved 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”) in exchange for a 5.14% participation on TIM Participações’

capital stock. In December 2009, we completed the merger with Holdco.

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, 2010, Brazil had sixteen states with a teledensity of above 100%. At least one more State, Sergipe, with teledensity of 99.46% in December, 2010, is expected to reach that milestone during 2011.

The Brazilian mobile market reached 202.9 million lines by the end of 2010, which represents a growth of 16.7% (compared to a 15.5% growth in 2009). Penetration rate in Brazil reached 104.7% in the December 2010,

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compared to 90.6% in 2009 and 78.1% in December 2008. As of December 2009, Rio Grande do Sul became the fifth Brazilian state after Rio de Janeiro, Sao Paulo, Mato Grosso do Sul, and The Federal District to reach a penetration rate of above 100%. At least one more State, Sergipe, with a penetration rate of 99.46% in December 2010, is expected to reach that milestone during 2011. The mobile market growth has been supported by: (i) stronger and stable economy with a solid expansion and better distribution of family's income and consumption; (ii) the continuous stimulation of SIM-Card sales (mostly in the pre-paid segment), and (iii) on-net offering (offers on calls from TIM to TIM)

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

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

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

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

On December 31, 2010 the Telecom Italia Group had approximately 15.4 million physical accesses (consumer and business) in Italy, a decrease of 0.7 million compared to December 31, 2009. The wholesale customer portfolio in Italy reached approximately 6.8 million accesses for telephone services at December 31, 2010, an increase of approximately 0.6 million compared to December 31, 2009.

The broadband portfolio in Italy reached 9.1 million accesses at December 31, 2010 (consisting of approximately 7.2 million retail accesses and 1.9 million wholesale accesses), an increase of 0.3 million accesses compared to December 31, 2009.

In addition, the Telecom Italia Group had approximately 31.0 million mobile telephone lines at December 31, 2010 in Italy, an increase of 162 thousand mobile telephone lines compared to December 31, 2009, after several years of decline.

### 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.

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

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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 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 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 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.

## Capital Expenditures

Our capital expenditure priorities in 2010 were related primarily to the expansion of the capacity and quality of our global system for mobile communications technology, or 3G or GSM network, as well as the development of information technology systems. Capital expenditures, including accounts payable, during 2009 and 2010 were R\$2,671.0 million and R\$2,835.7 million respectively.

The following table shows our capital expenditures in each individual category for each of the years presented:

Expenditures Categories	Year ended December	
	2010	2009
Network	1,535.2	989.0
Information technology	796.2	782.7
Handsets provided to corporate customers (comodato)	186.7	380.6
Handsets provided to consumers (subsidiaries)	290.3	483.4
Other	27.3	35.3
Total capital expenditures	2,835.7	2,671.0

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In 2010, the Board of Directors approved our budget for capital expenditures from 2011 to 2013 in the total amount of approximately R\$8.5 billion. Most of the capital expenditures we budgeted for 2011 to 2013 relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. The method of financing for these capital expenditures will be external bank loans.

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 2011 to 2013.

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

Although the industry has benefited from the increased purchasing power of Brazil's less affluent population, 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, 2009 and 2010, in Brazil approximately 81.5%, 82.6% and 82.3%, respectively, of mobile lines were prepaid and 18.5%, 17.4% and 17.7%, respectively, were postpaid notwithstanding a 29.0 million increase in the number of subscribers during 2010. The average monthly revenue per mobile customer in Brazil was approximately R\$26.9 for the year ended in December 31, 2008, R\$26.6 for the year ended December 31, 2009 and R\$23.6 for the year ended December 31, 2010.

#### Our Business

We use GSM to provide mobile telecommunications services throughout Brazil. We discontinued the offer of time-division multiple access technology, or TDMA, in 2011. 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 100% as of December 31, 2010. 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,



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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.

Regional Overview

Operations under TIM's trademark

We cover an area containing over 173 million of Brazil's 194 million inhabitants. Our mobile operating subsidiaries have approximately 51 million customers located in each of the Brazilian states and in the Federal District. On December 31, 2010, our combined penetration reached approximately 104.6% and our combined market share totaled approximately 25.1%. The map below shows an overview of the Brazilian mobile telecommunications market based on the wireless areas established by Anatel.

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Data as of December 31, 2010 according to Anatel (except GDP per capita data which is based on data published by the Instituto Brasileiro de Geografia Estatística, or IBGE, as of December 2007).

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
2010	51,028	States of Alagoas, Ceará, Rio Grande do Norte, Paraíba,	
2009	41,102	Pernambuco, Piauí, Bahia, Minas Gerais, Sergipe, Acre, 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.	

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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.

	On December 31,					
	2010		2009		2008	
	(in millions, except percentages)					
Brazilian population (1)	194.0		191.5		191	
Total penetration(2)(3)	104.7		91	%	78	%
Brazilian subscribers	202.9		174.0		150.7	
National percentage subscriber growth	16.7	%	15.5	%	24.5	%
Population we cover(1)	173		169		165	
Percentage of urban population we cover(4)	94	%	94	%	93	%
Total number of our subscribers	51.0		41.1		36.4	
Our percentage growth in subscribers	24.1	%	12.9	%	16.5	%
Our percentage of postpaid customers	17.7	%	17.4	%	18.5	%
Our ARPU(5)	R\$23.7		R\$26,6		R\$26.9	

(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.

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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 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 2010 we expanded our prepaid recharge stations by 9.0%. There are already over 398,392 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 us 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).

The year 2010 was of consolidation and evolution of our offering portfolio, which was completely renewed in 2009.

Main Plans:

- Infinity (pre or post-paid): in the pre-paid plan, the customer is only charged for the first minute of each call to any TIM number, and will pay a fixed rate ;
- TIM Liberty Plan: for a monthly flat fee, the customer has unlimited talk time with any TIM number, with no restriction on the number or duration of calls;

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- ‘Da Vinci’ Plan: includes unlimited voice and data, exclusive services and access to handset portfolio.

In the prepaid segment, TIM started the year by encouraging the ‘Infinity Pré’ plan, which consists of a promotional fixed R\$0,25-rate for other TIM users and a fixed R\$0,50-rate to landlines (assuming the use of our long distance code), which drove the use and growth of the customer base.

Focusing on Mother’s Day (an important date for the sector) and taking advantage of the World Cup period, we launched an offer that associated the Brazilian Team theme with an aggressive business strategy. In the second quarter TIM launched a set of offers for both pre- and post-paid segments, called “TIM Turbo”. This set of packages aims to power up the plans with even more interesting benefits on three fronts: internet, messaging and voice. In the case of pre-paid voice, the user has access by paying an initial fee to two unlimited call packages are offered to “favorite” numbers for a certain period of time.

On another commemorative date, Father’s Day, TIM kept its offers launched up to that date, and reinforced its communications to promote the Infinity Pré 25 cents offer for local and long distance.

For the fourth quarter, ‘Infinity Mais’ offer was launched in the segment, which expanded the benefit of charging per call, for termination in fixed lines, charging 50 cents per call. This offer, along with ‘Infinity Web’, was the major attractions for the Christmas campaign, enabling an expressive result of net additions in the fourth quarter.

Also in 2010, the ‘Infinity Web’ promotion consisted of a month of free internet use in ‘Infinity Pré’ plan and after this period, 50 cents a day were charged for unlimited internet access use over the cell phone. This offer, which will be detailed further below, served as a catalyst so that ‘Infinity Pré’ plan would gain even more differentiation in face of the competitors.

For the postpaid segment, 2010 started by launching the ‘Infinity Zero’ plan, an innovative plan with no monthly subscription – the customer only pays for monthly utilization and can also rely on Infinity plan benefits (charge per call, for local and LD calls using code CSP41). Also in the post-paid segment, TIM also launched in the first quarter “Liberty+100” plan, with a very competitive subscription in the SIM-only offer (without cell phone subsidy). This plan includes the same benefits of the Liberty plan, but it also includes 100 minutes for calls outside TIM network and also includes unlimited calls for Radio users.

In the second quarter, ‘TIM Turbo’ was also launched for post plans and the available packages for voice were: ‘Predileto Local and ‘Predileto DDD’, which offered unlimited calls to fixed or mobile TIM numbers through a monthly subscription. Additionally, other package options were launched for calls outside TIM network under the “Liberty” plan.

For the third quarter, TIM kept its postpaid offers launched early in the year, and created new services, such as ‘Infinity Family’, which offers free and unlimited calls between family TIM numbers, including calls to ‘TIM Fixo’. Thus, it is possible to take advantage of all “Infinity” plans’ benefits (each family member chooses his) and also speak free of charge to each other. Still in post-paid, ‘TIM Turbo’ was increased with new packages for Liberty customers, these packages are focused on expanding the community with whom you can speak in unlimited manner, therefore against a reduced monthly payment Liberty user may speak unlimitedly with radios.

In the end of 2010, we offered the ‘Combos Liberty’ that brought the Liberty plan benefits along with the Liberty Web promotion, which gave 6 months of unlimited free internet access when the customer bought a new handset (without subsidy).

During 2010, TIM maintained the TIM SIM-only strategy, where customers may choose discounts in service instead of subsidy on the handset. Therefore, it is possible to reduce even more the dependence of this offer model, and strongly signal to the market that it is possible to offer differentiated services at competitive prices and make handsets available without necessarily giving them free to customers.

The consolidation and evolution of offers have allowed TIM to present an improvement in operational indicators. Our sales reached a record level of 28,638 million lines in 2010, the new offers had great acceptance in the market and it was possible to keep accelerating fixed to mobile substitution, substantially increasing usage

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(MOU – Minutes of Use – closed the year at 129 minutes). We will seek the same path in 2011, through innovating launchings and pushing customers’ usage, always maintaining the quality of service.

## Sources of Revenue

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

Category of Activity	Year ended December 31,		
	2010	2009	2009 (1) pro-forma
	(in thousands of R\$)		
Gross mobile telephone services	18,761.4	16,357.0	16,989.2
Gross sales of handsets and accessories	1,557.9	1,717.7	1,717.7
<b>Total</b>	<b>20,319.3</b>	<b>18,074.7</b>	<b>19,013.4</b>

(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See “Presentation of Financial Information”.

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 vary 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.
- 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.

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- VU-M. VU-M is the fee another telecommunications service provider pays us for the use of our network by such provider's customers, in this case for local calls. (See "—Interconnection Charges.>").

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

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 used, be it voice, text messaging or data, at our applicable rates. Similarly, when one of our clients makes a mobile call when that customer is outside of our coverage area using the network of another service provider, we must pay the charges associated with that call to the mobile service provider in whose coverage area the call originates at the applicable rate of such mobile service provider.

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

### Interconnection Charges

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

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

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

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

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In October, 2010 Anatel published a resolution with a reduction of fixed to mobile rates which derives from a reduction on the respective wholesale interconnection levels on termination. In the relevant public consultation Anatel proposed a real reduction of the F-M rates of -10% in 2011 and -10% in 2012 based on nominal declines. Until now there is no definition by Anatel about this resolution.

For the future, Anatel intends to establish the reference tariffs for Significant Market Power operators based on fully allocated historic costs. The implementation of a cost model should be completed in 2013, and probably will imply a reduction of the mobile termination rate.

### Long Distance

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

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

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

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

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

Intelig customers enjoy a 100% digital network covering international and domestic markets through long distance telecom services using the 23 operator's code. Intelig customers enjoy a 100% digital network covering international and domestic markets through long distance telecom services using the 23 operator's code. During 2010, we continued with the integration process with Intelig, which operated as a fixed, long-distance and data transmission provider in Brazil. As a result, we expanded our network infrastructure, which resulted in faster development of 3G networks, optimized costs of leased lines and improved our competitive positioning in the telephony market.

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.

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Value-added services represented 12.0% of our gross service revenues in 2009 and 2010, 9.7% in 2008 and 7.9% in 2007. Accordingly, the 2010 consolidated income statement includes a full year results of 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 in December 2009). However, we continued to experience a significant growth in usage of these services in 2010, as illustrated by revenue growth from value-added services of 18.2% compared to 2009. We work with Telecom Italia, which makes substantial investment in developing new products, new technology and platforms, to evaluate the value-added services most prized by customers and to reduce implementation problems.

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

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

**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. In 2010, 27% of the Total VAS come from TIM connect fast, WAP fast (GPRS/EDGE).

### 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.”

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### Co-Billing Services

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

### Sales and Marketing

We commenced marketing our mobile telecommunications services under the brand “TIM” in March 1999. We divide our market into three main categories: large business customers (businesses with four or more mobile lines), medium business customers (businesses with fewer than four mobile lines), and individual customers. These categories are divided further according to level of usage, distinguishing, for example, high-volume users from other categories of usage. We take these categories into account when developing service plans, sales strategies, customer service strategies and new products, as well as for billing and collection purposes. We also use market research reports and focus group studies to analyze our customer base. We refer to this analytical approach to our customer base as “customer segmentation.” Our strategy has been focused on the acquisition and retention of highly valued clients in all segments and on the pursuit of operating efficiency in supporting the expansion of our client base. We currently intend to reduce our level of promotions and subsidies for handsets and certain prepaid services, and to focus our sales and marketing efforts on postpaid customers, high quality prepaid customers and service plans. In 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, 2010, our services were marketed through the largest distribution network in Brazil with over 8,989 points of sale (8,957 in 2009), of which approximately 70 were our own stores. In addition, we had over 398,392 recharging points for prepaid service. We market our services through a network of stores, including general retail stores that sell our mobile telecommunications services and related goods on a non-exclusive basis, and dedicated outlets that sell our services and goods exclusively. Sales of our products and services are offered by our sales personnel and also by authorized dealers, who are not our employees. We select our authorized dealers based on a number of factors including the suitability of the premises in which our services and ancillary merchandise will be offered. Our personnel and authorized dealers receive ongoing training and marketing support.

### Our Network

Our wireless networks use only digital technologies, primarily GSM, and cover approximately 94% of the urban Brazilian population based to Anatel’s coverage criteria. During 2010, we started to switch off of TDMA technology, migrating customers to the GSM system, and promoting greater efficiency in terms of power consumption. The remaining TDMA sites are expected to be turned off by December, 2012. During 2008 we implemented 3G services within our network, which enable users to experience a higher level of connectivity through broadband internet access. As of December 31, 2010, we had 2,142 sites ready to operate under 3G. At the end of 2010, there were 4,676 activated nodes B, all of them enabled to offer HSPA services (High Speed Packet Access). With our acquisition of TIM Celular, we hold authorizations from Anatel to provide our mobile services in each of the ten wireless areas of Brazil over various frequency spectrums. In December, 2010 we acquired additional bandwidth in 1,800MHz band, in order to improve capacity and quality to the subscribers in the total amount of R\$81.8 million, and we are still monitoring the status of the possible auctions for new bandwidth authorizations by Anatel (2.6MHz band for UBB applications). We view the purchase of any frequency made available by Anatel for the provision of mobile services as a priority since having available frequency is 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, 10,735 radio base stations in our GSM network and 4,676 3G sites in December, 2010. The network is connected primarily by IP radio links and fiber-optic transmission systems from recently acquired Intelig network. The remaining sites are connected by leased lines. Nokia Siemens Networks, Ericsson and Huawei are our main suppliers for GSM and 3G equipments.

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

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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, we 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 DWDM equipments with 80x40 Gbps capacity and 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. We also acquired capacity in major top submarine cable systems, such as AmericasII, Globenet and Atlantis2. A multi-year plan has started, pursuing a significant expansion for Intelig network, aiming to reach the most isolated areas in Brazil.

## Site-Sharing Agreements

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

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

## Customer Service

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.

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### Billing and Collection

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

- customer registration;
- customer information management;
- accounts receivable management; and
- billing and collection.

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

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

### Fraud Detection and Prevention

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

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

As part of our commitment to excellent customer service, in the limited instances in which our customers experience cloning fraud, the customer's number, mobile telephone or fixed telephone, or both, are changed free of charge. If subscription fraud has occurred, both the applicable number and the mobile telephone line are terminated. If part of a

fraudulent call is carried by the network of another service provider, we are generally obligated to pay that service provider the applicable interconnection fee, regardless of whether we ever collect the receivable associated with the call.

Most of 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.

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### 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 controlled by 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.

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

#### Other Competition

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

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

#### 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.”

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### 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 are supported by individual agreements with the companies’ partners.

### International Roaming Agreements

We have roaming agreements with other GSM telecommunications service providers operating in 207 countries with 454 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 services

Co-billing occurs when we bill one of our customers on behalf of a long distance service provider for services rendered to our customers by that carrier. Beginning July 2003, we started providing co-billing services to other



telecommunication service providers operating in Brazil. The rates of such services are being negotiated under the supervision of Anatel.

#### Taxes on Telecommunications Goods and Services

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

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- **ICMS.** The principal tax applicable to telecommunications goods and services is a state value-added tax, the Imposto sobre Circulação de Mercadorias e Serviços (ICMS), which the Brazilian States levy at varying rates on certain revenues arising out of the sale of goods and services, including certain telecommunications services. The ICMS tax rate for domestic telecommunications services is levied at rates between 25% and 35%. The ICMS tax rate levied on the sale of mobile handsets averages 17% or 18% throughout the Regions, to the exception of certain handsets whose manufacturers are granted certain local tax benefits, thereby reducing the rate to as much as 7%. In 2005, certain of the 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 telecommunications companies should issue invoices of communications services (Model 22) corresponding to the value of tax due on the sale of calling cards to dealers or final customers. The amount of ICMS tax due in such transactions is passed on to the dealers or final consumers and must be paid for the State where the services are provided (activation of the card).
- **ISS.** The Imposto Sobre Serviços (ISS) is a municipal tax that applies on certain services listed in the List of Services prescribed by Complementary Law No. 116/03 (“LC116/03”). This list also includes certain 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 (COFINS) is a social contribution levied on gross revenues (which may include financial revenue, depending on the systematic applicable to each business). Since January 1, 2000, companies began to pay the COFINS tax over their 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 method continues in a cumulative basis with the rate of 3%.
- **PIS.** The Programa de Integração Social (PIS) is another social contribution levied at the rate of 0.65%, on gross revenues from telecommunications service activities. In December 2002, Law 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 method continues in a cumulative basis with the rate of 0.65%.
- **FUST.** On August 17, 2000, the Brazilian government created the Fundo de Universalização dos Serviços de Telecomunicações, FUST, a fund that is supported by an interference with the economic order contribution tax applicable to all telecommunications services. The purpose of the FUST is to reimburse a portion of the costs incurred by telecommunications service providers to meet the universal service targets required by Anatel (such as targets for rural and impoverished areas, schools, libraries and hospitals), in case these costs are not entirely recovered through the collection of telecommunications service fees and charges. The FUST Tax is imposed at a rate of 1% on gross operating revenues, net of discounts, ICMS, PIS and COFINS, and its cost may not be passed on to clients. Telecommunications companies can draw from the FUST to meet the universal service targets required by Anatel.

On December 15, 2005, Anatel enacted Precedent No. 7/05 requiring that FUST should be paid on revenues arising from interconnection charges since the effectiveness of the FUST. A notice was issued deciding that the company must adjust values on FUST basis of calculation in order to include interconnection revenues received from another's telecommunication company. A writ of mandamus was

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filed against Anatel to avoid the terms of Precedent No. 7/05. The first level decision was issued 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 (FUNTTEL), a fund that is supported by a social contribution tax applicable to all telecommunications services. 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 discount, ICMS, PIS and COFINS, and its cost may not be passed on to clients.
- **FISTEL.** The Fundo de Fiscalização das Telecomunicações (FISTEL) is a fund supported by a tax applicable to telecommunications services, which was established in 1966 to provide financial resources to the Brazilian government for its regulation and inspection of the sector. The FISTEL consists of two types of fees: (i) 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 (ii) 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.
- **Corporate Income tax and Social Contribution on net income.** Income tax expense is made up of two components, a corporate income tax (IRPJ) on taxable income and a social contribution tax on net income (CSLL). The corporate income tax is payable at the rate of 15% plus an additional rate of 10% (levied on the part of taxable profits that exceeds R\$0.02 million per month or R\$0.24 million per year). The social contribution tax is currently assessed at a rate of 9% of adjusted net income.

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are added to their net profits for tax purposes. In addition, profits, capital gains and other income obtained by foreign branches or income obtained from subsidiaries or foreign corporations controlled by a Brazilian entity are computed in the calculation of an entity's profits, in proportion to its participation in such foreign companies' capital. 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 to this rule 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.

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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 (Lei Geral de Telecomunicações – "LGT") of 1997 – the legislative benchmark of the sector - and a comprehensive regulatory framework for the provision of telecommunications services promulgated by the Anatel.

Anatel is the regulatory agency for telecommunications under the LGT and the October 1997 Regulamento da Agência Nacional de Telecomunicações (the "Anatel Decree"). Anatel is administratively independent, financially autonomous and maintains a close relationship with the Ministry of Communications as it is required to report its activities to that Institution. 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.

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

### 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 attached to each concession.

Through resolutions enacted in September 2000 and January 2001, Anatel launched the PCS regime, and began encouraging cellular service providers operating under SMC regulations to convert their concessions into authorizations under PCS regulations. According to the rules issued by Anatel, SMC providers would not be able to renew their concessions to provide SMC services, and were compelled to convert to the PCS regime in order to continue their operations. The permission from Anatel to transfer the control of these companies was also conditioned

on rules that compelled SMC providers to migrate its SMC concessions to PCS authorizations, and to operate under the PCS regulations.

In 1997 and 1998, 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

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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 São Paulo	March 12, 2016	April 30, 2023
States of Rio de Janeiro, Espírito Santo, Maranhão, Pará, Amapá, Amazonas and Roraima	March 29, 2016	April 30, 2023
States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Rio Grande do Sul (except the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu), Cities of Londrina and Tamarana (State of Paraná) and the Federal District	March 12, 2016	April 30, 2023
State of Pernambuco	May 15, 2024	April 30, 2023
State of Ceará	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.

In August 2009, Anatel gave its approval for the acquisition of the fixed line operator Intelig, which operates as a national and international long distance operator in Brazil and provide local fixed service in a number of regions in Brazil. According to the regulations, TIM Brasil and Intelig are obliged to resolve the overlapping of the fixed service authorizations within 18 months from the acquisition (that is by the end of June 2011) keeping only one authorization per class of service. Anatel can postpone this date if it understands that we have the rights to ask for it. Also, Anatel will be updating the contracts assigned to Concessionaries and in particular will indicate new obligations related to the fixed line universal service obligations (“Plano Geral de Metas de Universalização”, or “PGMU”), namely referring to backhauling, public pay phones and telephone services for families with low incomes, among others. As of the date of this annual report, Anatel did not impose any new regulations on telecommunication companies.

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### Competitive scenario

The Brazilian mobile market continues to experience growth in the number of mobile lines: at December 31, 2010, mobile lines in Brazil reached around 202 million, a growth of 16% over 2009 and with a penetration rate of approximately 104% of the population.

Alongside innovative services which are established and growing, such as mobile Broadband, there are various other market areas with significant medium term growth potential, such as: mobile advertising, mobile content (e.g. social networking), mobile payment and location based services.

TIM is the brand name under which we market our mobile telecommunications services. Currently, we hold mobile authorizations for a nationwide coverage. In two of our ten areas we are the Telebrás legacy provider. Our network reaches 89.5% of the country's population based on Anatel's coverage criteria.

We have three major competitors in Brazil, in all areas, using GSM and UMTS (started in 2008) technologies: Vivo, which is controlled by Telefónica; Claro, a company of the America Móvil Group; and Oi, the mobile communications provider integrated to the largest Brazilian fixed-wireline incumbent.

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.

We also compete with fixed-line telephone service providers in the Local and Long Distance markets. The fixed-line incumbent providers in Brazil (Oi, Telefónica and Embratel) offer packages of voice (both fixed line and mobile), broadband and other services. The acquisition of Intelig and the success of our Infinity and Liberty plans, which offers low-cost Long Distance on-net calls has broadened, allows us to achieve the leadership in the fixed telecommunication sector (TIM's market share of the Long Distance traffic is 48.3% at December 31, 2010).

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

### National Broadband Program

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

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

### Obligations of Telecommunications Companies

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

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Beginning in September 2003, we became subject to the PCS quality of service indicators. Our quality of service obligations under our PCS authorizations differ substantially from those under the previous SMC concessions. See “—PCS Regulation.” Since December 2003, we have achieved the majority of the service of quality requirements applicable to the PCS service operators. Some of our PCS quality of service indicators are currently difficult to achieve due to, for example, our dependence on the performance of third parties and the continuing clarification of some of the quality of service measurements under the PCS rules. As a result, since 2004 Anatel has been filing administrative proceedings against TIM Celular and TIM Nordeste for non-compliance with certain of our quality of service obligations. In some of these proceedings, Anatel applied a fee that did not cause a material adverse effect on our business, financial condition and results of operations. We will continue to strive to meet all of our quality of service obligations under the PCS authorizations.

In 2010, the Anatel has proposed a public consultation on the Review of the Regulation on the Management of Quality of Service - SMP. The Public Consultation n°.16/2010 has proposed the establishment of new quality goals, evaluation criteria, data collection and quality monitoring of Service Providers – SMP. The Anatel proposal aims to create a comprehensive model of quality management of the SMP providers providing preventive and proactive on the part of the Agency, through the incorporation of indicators and benchmarks that allow the systematic evaluation of the quality of service in all its dimensions.

This new list of proposals for quality indicators divided into two major groups: Operational Indicators and Indicators Research. As of the date of this annual report, Anatel did not impose any new regulations on telecommunication companies.

### 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 for noncompliance with certain quality standards and noncompliance with the rules and the authorization terms. We have been fined by Anatel in some proceedings and are still discussing the penalty imposed in appeals before the Agency. As a result of these

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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, 2010, the total amount of these fines was R\$113.6 million. However, only R\$7.7 million were classified as “probable loss” by our legal advisors. We continue to do our best to fully comply with our obligations under the PCS regime or with future changes in the regulations to which we are subject. See “—Obligations of Telecommunications Companies”, “Item 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.

In August 2007, Anatel issued a Resolution nº 477 establishing new obligations regarding PCS, in particular in connection with users’ rights towards their mobile services providers. The new resolution came into effect in February 2008. The main PCS new regulatory obligations include the following:

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

## Interconnection Regulation

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

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

values will be used in arbitration cases involving termination rates by Anatel.

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

Anatel made in March 2011 a public consultation regarding a proposal to modify the regulation on leased lines, which is a service contract between a provider and a customer, whereby the provider agrees to deliver a symmetric

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telecommunications line connecting two or more locations in exchange for a monthly rent. The proposed rule provides for a more efficient wholesale regulation, taking into account the operational needs of alternative market players.

Moreover, Anatel already carried out a public consultation on the proposed resolution on the reduction of the fixed-to-mobile incumbents' retail prices of 10% in 2011 and 10% in 2012 (discounted inflation rates). This issue is still under discussion.

### Significant Market Power

In the next coming months, a new "Competition Framework" will be defined – namely the "PGMC, Plano Geral de Metas de Competição" and the respective adoption will be the subject to a Public Hearing and a Public Consultation. The PGMC will set out clear criteria for designating operators with Significant Market Power, and the specific regulations they will have to follow in the wholesale access market

We expect Anatel to adopt a deep reform of the fixed-wholesale market, introducing asymmetric regulatory measures, in line with the European experience, in order to assure a more transparent and non-discriminatory access to the incumbent's networks.

### 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 – FGV, in evaluating prices and determining the relevant cap for prices charged in the telecommunications industry. Beginning in 2012, we expect Anatel to begin to 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 market trend, and that the adjustment will be below the annual inflation rate based on the IST. If this new inflation adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

### Number Portability

In March 2007 Anatel issued a new regulation regarding number portability in Brazil for fixed telephony and 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.

### Mobile Virtual Network Operators

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



TIM was the first mobile operator to negotiate a contract with a virtual operator and is a pioneer in the discussion of the theme with the regulator.

The first and only contract to be submitted for approval of Anatel in 2010 is for an Authorization license in partnership with TIM and was filed in last December.

TIM's commercial partners have opted for the Authorization license, which carries the obligations and responsibilities for the service provisioning. The contracts are negotiated on a case by case basis with the intention to build a specific solution for every new virtual operator.

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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. 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.

### Frequencies and Spectrum Background

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

- Of the 13 available lots in the H Band, 11 were awarded to Nextel, a new entrant in the GSM market, which has traditionally offered trunking services in Brazil. Current operators were prevented from participating due to spectrum caps. OI and CTBC managed to win the remaining 2 lots where they had cap availability.
- The new entrant will be benefited with spectrum and infrastructure sharing, specifically in locations with less than 30.000 inhabitants, subjected to commercial agreements.
- TIM won individual block of frequencies in 8 service areas, strengthening its presence in the North, Santa Catarina, Minas Gerais and Parana, bidding a total of R\$81.8 million, which will be paid proportionately to the remaining years in the existing authorization licenses (remaining years/15).
  - VIVO won blocks in 900MHz and due to available cap, managed to win lots of 1700/1800MHz in all regions, completing a national coverage of (10+10)MHz in this band.
  - Claro won blocks of spectrum in the 1700/1800 MHz band.

In August 2010, Anatel approved a resolution for the destination of the 2.5 GHz spectrum to mobile services after 2013. Destination of this spectrum in rural areas will prioritize MMDS operators and in urban areas will prioritize mobile operators. Today the 2.5GHz band is assigned to MMDS TV services and the respective cleaning for destination to other services will be the responsibility of the new owner. Only four blocks of FDD will be available, three of (20+20) MHz and one of (10+10) MHz. Competition on this band will be high considering that there are five or six established players in the country, according to the region. It is possible that the auction will take place in 2011.

Brazil has not yet identified the “Digital Dividend” (the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV), but only briefly and publicly stated that this radiofrequency will be available to broadcasters until 2016. Since this band is complimentary to the 2.5GHz, the dynamics of the 2.5GHz Band auction may be highly impacted by the outcome of the “Digital Dividend” discussions that takes place before the auction.

In November 2010, Anatel published the radiofrequency efficiency regulation, establishing metrics for efficiency measurement, excluding broadcasters of the obligation. The non-compliance includes in the extreme, expiration of the radiofrequency license without compensation. Operators are subject to evaluation beginning in November 2011.

Anatel Administrative Proceedings

Under the terms of the Authorization for Mobile Personal Service (SMP) Exploitation, TIM Celular implemented mobile personal telecommunications cover for the assigned area. Under such Term of Authorization,

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TIM Celular is required to operate in accordance with the quality standards established by Anatel. If it fails to meet the minimum quality standards required, TIM Celular is subject to PADO (Obligation Non-Compliance Determination Procedures) and applicable penalties. Anatel has brought administrative proceedings against TIM Celular 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 its defense before Anatel, TIM Celular attributed the lack of compliance to items beyond its control and not related to its activities and actions. We cannot predict the outcome of these proceedings at this time, but have accrued the amount in our balance sheet as a provision for all those cases in which we estimate our loss to be probable.

C. Organizational Structure

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

The following chart illustrates our current ownership structure:

\*“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, 2010, we had 100 mobile switches, 13,877 radio base stations, and approximately 16,200 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed. On December 31, 2010, we owned approximately 116,347 square meters and leased approximately 1,167,922 square meters of real property, all of which were available for installation of our equipment. We also lease approximately 144,258 square meters and own

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approximately 66,722 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\$8.5 billion in CAPEX, according to its strategic plan for the years 2011-2013.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The Company changed its financial reporting from Brazilian Generally Accepted Accounting Principles (B.R. GAAP) to IFRS issued by IASB, beginning with the financial statements as of and for the year ended December 31, 2009. These standards comprise (i) IFRS, (ii) the International Accounting Standard (IAS), and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor the Standing Interpretations Committee (SIC).

The financial statements presented in Part III of this Form 20-F are the first IFRS compliant financial statements prepared and presented by the Company. A summary of the main differences between the accounting practices previously adopted by the Company and IFRS and the reconciliations between these comprehensive bodies of GAAP for shareholders' equity and comprehensive income, are presented in Note 2d of the Company's financial statements.

As required by the IFRS, the Company applied IFRS 1 rules in the migration process from BR GAAP to IFRS. The transition date to the new accounting principles was January 1, 2009. As foreseen in IFRS 1, the Company applied the mandatory exceptions and a number of optional exemptions regarding full retrospective application of IFRS which are summarized below:

(a) Assets and liabilities of subsidiaries, affiliates and joint ventures (optional – chosen by the Company)

The Company utilized the exemption that allows a subsidiary, upon first adoption at a date later than that of its parent company, in its own financial statements prepared in accordance with IFRS, to consider the accounting values that were included in the consolidated financial statements already reported, based on the parent company's date of transition to IFRS.

Thus, since the date of transition to IFRS adopted by our controlling shareholder (Telecom Itália S.p.A.) was January 1, 2004, the assets and liabilities that had already been presented in accordance with IFRS in the consolidated financial statements already reported to the Parent Company, were included in the financial statements as of the date of the Company's transition to IFRS.

Considering that these amounts had already been analyzed / prepared under IFRS assumptions, the Company believes that the adoption of this exemption was very helpful. It mitigates errors in an eventual calculation of the impacts of some retrospective transactions (mainly regarding business combinations).

(b) Exemption regarding the classification of financial instruments (optional – chosen by the Company)

The Company opted to classify its financial instruments in accordance with IAS 32 and IAS 39 as of the date of transition to IFRS. No analysis was carried out in connection with any date prior to the Company's contracting of any financial instruments in force as of the date of transition to IFRS. All financial instruments contracted after the

transition date were analyzed and classified as of the respective contract date in accordance with IFRS.

The Company believes that no relevant impacts on financial condition, changes in financial condition and results of operations would have occurred if the Company had absented the election to rely on the exemption.

(c) Exception for estimates (mandatory)

According to IFRS, as of January 1, 2009, the estimates are consistent with the estimates made at the same date in accordance with the accounting practices adopted in Brazil.

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All other exemptions / exceptions provided for in IFRS 1 were observed, analyzed and produced no effects in relation to the accounting practices adopted in Brazil.

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2010, 2009 and 2008 included in this Annual Report that have been prepared in accordance with IFRS, issued by IASB as well as with the information presented under "Item 3A. Key Information—Selected Financial Data."

### 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.

Anatel approved the merger on August 11, 2009 in Decision No. 4634, and decided to eliminate the overlapping geographic licenses held by TIM Celular and 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\$516.7 million, to JVCO. The acquisition date fair value of the consideration transferred totaled R\$739.7 million. Holdco's assets and liabilities acquired are, respectively, R\$517.1 million and R\$0.4 million on November 30, 2009.

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\$516.7 million to JVCO. The acquisition date fair value of the consideration transferred totaled R\$739.7 million. Holdco's assets and liabilities acquired are, respectively, R\$517.1 million and R\$0.4 million on November 30, 2009.

The results of Intelig's operations have not been included in the 2009 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.

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

Assets	R\$ (thousands)
Cash and cash equivalents	132,816
Accounts receivable	126,353
Taxes recoverable	23,074
Court deposits	33,453
Property, plant and equipment	780,845
Intangible assets	135,850
Other assets	25,114
<b>Total identifiable assets purchased</b>	<b>1,257,505</b>
<b>Liabilities</b>	<b>(342,431 )</b>
Loans	(118,402 )



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Contingencies	(140,107 )
Long-term taxes and contributions	(101,311 )
Other liabilities	(25,540 )
Total liabilities assumed	(727,791 )
Net identifiable assets acquired	529,714

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

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

Pro forma information considers that our acquisition of 100.00% of Holdco/Intelig as if it was completed at January 1, 2009.

	Year ended December 31, 2009 (in millions of R\$)				Percentage change			
	2010	TIM Partic (1)	Intelig	Pro-forma (2)	2010 - 2009		2010 - 2009	
					Pro-forma			
Net operating revenues	14,457.5	13,158.1	588.9	13,747.0	5.20	%	9.90	%
Cost of services and goods	-7,305.8	-6,672.4	-470.6	-7,142.9	2.30	%	9.50	%
Gross profit	7,151.7	6,485.8	118.3	6,604.1	8.30	%	10.30	%
Operating expenses:								
Selling expenses	-4,494.6	-4,436.8	-65.2	-4,501.9	-0.20	%	1.30	%
General and administrative expenses	-1,008.7	-1,033.4	-100.4	-1,133.8	-11.00	%	-2.40	%
Other operating expenses	-448.2	-462.1	-1.3	-460.8	-2.70	%	-3.00	%
Total operating expenses	-5,951.5	-5,932.3	-164.2	-6,096.5	-2.40	%	0.30	%
Operating income before financial results	1,200.1	553.5	-45.9	507.6	136.40	%	116.80	%
Net financial income	-245.5	-245.1	505.7	260.6	-194.20	%	0.10	%
Operating income before interest	954.7	308.3	459.9	768.2	24.30	%	209.60	%
Income and social contribution tax benefit	1,257.0	33.0	0	33.0	3706.30	%	3706.30	%
Net income	2,211.7	341.4	459.9	801.2	176.00	%	547.90	%



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The merger with Holdco Participações Ltda. and acquisition of control of Intelig has 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.

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.

### 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 3 to our consolidated financial statements.

### Depreciation and Impairment of Long-Lived Assets

Property, plant and equipment are stated at cost of acquisition or construction. Depreciation is calculated using the straight-line method based on the estimated useful lives of the underlying assets. See notes 4.g and 10 to our consolidated financial statements. We currently depreciate automatic switching, transmission and other equipment

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based on an estimated useful life of seven years. Free handsets for corporate customers (comodato) are depreciated over two years.

We review our long-lived assets, such as goodwill, for impairment whenever events or circumstances indicate the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. At least annually, the Company applies the recoverability test on the recorded goodwill. The calculations were performed based on the discounted cash flow using as parameters the assumptions included in the Company's 10 years Industrial Plan, growth rate compatible with our market conditions and a discount rate of 10% per year. The results of such tests indicated no need for an accounting provision.

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

However, asset impairment evaluations are, by nature, highly subjective. If our projections are not met, we may have to record impairment charges not previously recognized. In analyzing potential impairments, we use projections based on our view of growth rates for our business, anticipated future economic, regulatory and political conditions and changes in technology. Such projections are subject to change, including as a result of technological developments that may render long-lived assets obsolete sooner than anticipated. See note 3.i to our consolidated financial statements.

#### Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. We revise our estimated percentage of losses on a regular basis, taking into account our most recent experience with non-payments (i.e. average percentage of receivables historically written-off, economic conditions and the length of time the receivables are past due). The provision for doubtful accounts for 2010 was based on the following estimates of percentages of receivables, classified by the number of days such receivables are overdue, that it projected to be uncollectible. These estimates were based on historical experience of write-offs and future expectations of conditions that might impact the collectability of accounts. The amount of the loss, if any, that we actually experience with respect to these accounts may differ from the amount of the allowance maintained in connection with them.

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

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\* 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 IFRS.

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

In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors such as economic conditions, industry trends, interest rates, shifts in our business strategy and changes in the type of services we offer. The use of different assumptions and estimates could significantly change our financial statements. A change in assumptions and

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estimates with respect to our expected future taxable income could result in the recognition of a valuation allowance on deferred income tax assets, which would decrease our results of operations and shareholders' equity.

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

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

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

- TIM Celular had a history of losses.
- at the end of 2009, Brazil was expecting a presidential election in 2010, generating uncertainties in relation to longer future projections and taxation.
- at the end of 2009, the economy was still recovering from the worldwide financial crises, generating a strong level of uncertainties in longer term future projections. In addition, we believed there 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.

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

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

Considering the reduction in the uncertainties we had at the end of 2009, we updated our Industrial Plan for years 2011-2013 and following projections and we believe the future income generation will be much higher than we expected in the end of 2009. Based on the expected taxable income to be generated in future years, the reduction of uncertainties mentioned there were in place in the end of 2009, at the end of 2010 we released in its entirety the valuation allowance for tax loss carryforwards related to our subsidiary TIM Celular that was recorded at December 31, 2009.

#### Asset Retirement Obligations

Our subsidiaries are contractually obligated to dismantle their cellular towers from various sites they lease. We must record as asset retirement obligations the present value of the estimated costs to be incurred for dismantling



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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. A contingency is “an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.”

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

### Revenue Recognition and Customer Incentive Programs

Revenues are recorded when services are rendered. As a result of our billing cycle cut-off times, we are required to make estimates for services revenue earned but not yet billed. These estimates, which are based primarily upon unbilled minutes of use, could differ from our actual experience. See note 3 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;

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- 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.

## 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 10.66% p.a. Low interest rates contributed to an increase of 1.1% in the Ibovespa during 2010. A strong inflow of foreign capital contributed to an approximately 4.4% appreciation of the Brazilian Real to the U.S. dollar.

The Brazilian mobile market reached 202.9 million lines nationwide at the end of December 2010, corresponding to a penetration ratio of 104.7% (compared to 90.6% in 2009) and an annual growth rate of 16.7% (compared to 15.5% in 2009). 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 29.0 million in 2010 which represents a 24.3% upturn from 2009. The prepaid mix continues to represent the greatest part of total subscriber base, 82.3%.

TIM's subscriber base ended the year of 2010 with 51.0 million clients, 24.1% up from 2009, corresponding to a market share of 25.1%, while the service revenues share, our primary focus, reached 26.7% in 2009. The pre-paid segment reached 43.5 million (25.7% up from 2009) while the post-paid stood at 7.5 million users in the year (15.7% up from 2009). As for the client mix, post-paid accounted for 14.6% of the total subscriber base, compared to 15.7% from 2009, largely impacted by the increase of pre-paid base. In 2010, TIM added 9.9 million customers, up from 4.7 million in 2009. The increase reflects TIM's success with Infinity and Liberty plans. TIM's ARPU (average revenue per user) registered R\$23.7 in 2010. On a yearly basis, ARPU dropped 10.8% which is partially attributed to an increase of 25.7% 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 2010, our average customer base, calculated as the simple mean of monthly averages, increased 17.9% to 44.8 million, compared to 38.0 million customers in 2009.

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

	Year ended December 31,	
	2010	2009
Average number of customers using post-paid plans(1)	6,916,279	6,285,455
Average number of customers using pre-paid plans(1)	37,895,049	31,708,947
Total number of customers(1)	44,811,328	37,994,402

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

A. Operating Results

The following table shows certain components of our statement of operations for each year in the two-year period ended December 31, 2010, as well as the percentage change from year to year.

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	Year ended December 31,			Percentage change			
	2010	2009	2009 Pro-forma (1)	2010 - 2009 Pro-forma		2010 - 2009	
Net Operating Revenues	14,457,450	13,158,134	13,747,028	5.2	%	9.9	%
Cost of services and goods	(7,305,767 )	(6,672,369 )	(7,142,927 )	2.3	%	9.5	%
Gross profit	7,151,682	6,485,765	6,604,101	8.3	%	10.3	%
Operating expenses:							
Selling expenses	(4,494,608 )	(4,436,751 )	(4,501,908 )	-0.2	%	1.3	%
General and administrative expenses	(1,008,694 )	(1,033,438 )	(1,133,804 )	-11.0	%	-2.4	%
Other operating expenses	(448,247 )	(462,114 )	(460,793 )	-2.7	%	-3.0	%
Total operating expenses	(5,951,549 )	(5,932,303 )	(6,096,505 )	-2.4	%	0.3	%
Operating income before financial results	1,200,134	553,462	507,596	136.4	%	116.8	%
Net financial income	(245,457 )	(245,115 )	260,601	-194.2	%	0.1	%
Operating income before interest	954,677	308,347	768,197	24.3	%	209.6	%
Income and social contribution tax benefit	1,257,038	33,026	33,026	3706.3	%	3706.3	%
Net income	2,211,715	341,373	801,223	176.0	%	547.9	%

(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See "Presentation of Financial Information".

## 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 26 to our consolidated financial statements and discussed below. We do not determine net operating revenues or allocate cost by category of service.

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



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## Statement of Operations Data:

## IFRS

	Year ended December 31,			Percentage change			
	2009			2010 -			
	2010	Pro-forma (1)	2009	2009	2010 - Pro-forma	2009	
	(in million of reais)						
Monthly subscription charges and usage charges	8,912.0	8,068.2	8,068.2	10.5	%	10.5	%
Fixed services	1,281.2	1,074.2	89.9	19.3	%	1325.1	%
Interconnection charges	3,679.4	4,006.9	4,042.6	-8.2	%	-9.0	%
Long distance charges	2,374.3	1,943.1	1,943.1	22.2	%	22.2	%
Value added services	2,241.5	1,897.2	1,907.2	18.2	%	17.5	%
Other service revenues	272.9	306.0	306.0	-10.8	%	-10.8	%
Gross operating revenues from services	18,761.4	17,295.7	16,357.0	8.5	%	14.7	%
Value added and other taxes relating to services	(4,143.6 )	(3,779.0 )	(3,615.4 )	9.6	%	14.6	%
Discounts on services	(1,046.2 )	(728.9 )	(542.6 )	43.5	%	92.8	%
Net operating revenues from services	13,571.6	12,787.9	12,199.0	6.1	%	11.3	%
Sales of cellular handsets and accessories	1,557.9	1,717.7	1,717.7	-9.3	%	-9.3	%
Value added and other taxes on handset sales	(332.2 )	(301.1 )	(301.1 )	10.3	%	10.3	%
Discounts on handset sales	(339.8 )	(457.4 )	(457.4 )	-25.7	%	-25.7	%

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

Gross service revenues for the year ended December 31, 2010 increased by 8.5% compared to R\$17,295.7 million on a pro forma basis in the year ended December 31, 2009. This increase primarily reflected a strong increase in our long distance charges (22.2% up from the year ended December 31, 2009), fixed service charges (19.3% up from the year ended December 31, 2009), and value added services (18.2% up from the year ended December 31, 2009). All of these increases reflect the excellent amount of client acquisitions by the company, that reached over the 50 million figure. The gross handset revenue for the year ended December 31, 2010 was R\$1,557.9 million, a 9.3% decrease over R\$1,717.7 for the year ended December 31, 2009, resulting from a client acquisition approach focused mainly in discounted services, rather than discounted handsets offer. Gross revenues for the year ended December 31, 2010 totaled R\$20,319.3 billion, a 6.9% increase from the year ended December 31, 2009.

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

Net operating revenues increased 5.2% from R\$13,747.1 million on a pro forma basis in the year ended December 31, 2009. This was primarily due to the expansion in the number customers, reflecting better results in several revenue lines, such as fixed services, long distance charges and value added services.



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## Monthly subscription charges and usage charges

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

The total average monthly minutes of billed use per customer (“MOU”) for 2010 and 2009 were as follows:

	Year ended December 31,	
	2010	2009
Average incoming MOU	16	21
Average outgoing MOU	100	62
Average total MOU	116	83

## Fixed Services

Revenue from fixed services was R\$1,281.2 million in the year ended December 31, 2010, a 1,325.1% increase from R\$89.9 million in December 31, 2009, mainly due to the acquisition of Intelig.

Revenue from fixed services increased 19.3% from R\$1,074.2 million on a pro forma basis in December 31, 2009. The main reason for this increase was since the beginning of the year, Intelig had its brand reshaped and corporate offers remodeled, supporting the yearly revenue growth

## Interconnection charges

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

Interconnection revenues decreased 8.2% from R\$4,006.9 in 2009 on a pro forma basis. Interconnection as a percentage of total gross revenues of services stood at 19.6% in the year ended December 31, 2010 compared to 23.2% on a pro forma basis in the year ended December, 2009.

## Long distance charges

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

## Value-added services

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

Value-added service revenues increased 18.2% from R\$1,897.2 million on a pro forma basis 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

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area through expanding partnerships, enhancing our smart phone portfolio, including through the addition of the iPhone 3GS and 4, and promoting our mobile broadband service through TIM web broadband.

Other service revenues

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

Sales of mobile handsets

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

Value-added and other taxes relating to services

The principal tax on telecommunications services is ICMS tax, which is imposed at rates between 25% and 35%. ICMS is also the principal tax on sales of handsets, which is imposed at a rate between 7% and 17%. See "Item 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\$4,143.6 million in the year ended December 31, 2010 compared to R\$3,615.4 million in the year ended December 31, 2009, an increase of 14.6% partly due to the acquisition of Intelig.

Value-added and other taxes relating to services and handset sales grew by 9.6% from R\$3,779.0 million on a pro forma basis in the year ended December 31, 2009.

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

Discounts on services and handset sales increased 16.8% from R\$1,186.3 million on a pro forma basis in the year ended December 31, 2009.

Costs of services and goods

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

Costs of services and goods increased by 2.3% from R\$7,142.9 on a pro forma basis in the year ended December 31, 2009, due mainly to a increase in expenses related to interconnection, reflecting our campaigns to promote on-net calls

and lower personnel expenses. The following table shows the composition of costs of services and sales of mobile handsets, as well as the percentage change from 2010 to 2009:

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## Statement of Operations Data:

## IFRS

	Year ended December 31,			Percentage change				
	2009			2010 -		2010 -		
	2010	Pro-forma (1)	2009	2009	Pro-forma	2009	2009	
	(in million of reais)							
Depreciation and amortization	(1,994.2 )	(1,906.3 )	(1,816.0 )	4.6	%	9.8	%	
Interconnection expenses	(3,603.0 )	(3,628.1 )	(3,351.8 )	-0.7	%	7.5	%	
Circuit leasing and related expenses	(242.9 )	(212.0 )	(166.0 )	14.6	%	46.3	%	
Materials and services	(337.0 )	(338.4 )	(315.6 )	-0.4	%	6.8	%	
Personnel	(58.4 )	(96.1 )	(60.8 )	-39.2	%	-3.9	%	
FISTEL tax and other	(44.2 )	(37.0 )	(37.0 )	19.5	%	19.5	%	
Total cost of services	(6,279.7 )	(6,217.7 )	(5,747.2 )	1.0	%	9.3	%	
Cost of handsets and accessories sold	(1,026.1 )	(925.2 )	(925.2 )	10.9	%	10.9	%	
Total cost of services and goods	(7,305.8 )	(7,142.9 )	(6,672.4 )	2.3	%	9.5	%	

(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See "Presentation of Financial Information".

## Depreciation and amortization

Depreciation and amortization expenses increased 9.8% to R\$1,994.2 million in the year ended December 31, 2010 from R\$1,816.0 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig.

Depreciation and amortization expenses increased 4.6% from R\$1,906.3 million on a pro forma basis in the year ended December 31, 2009. 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 increased 7.5% to R\$3,603 million in the year ended December 31, 2010 from R\$3,351.8 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig.

Interconnection costs decreased 0.7% from R\$3,628.1 million on a pro forma basis in the year ended December 31, 2009. This decrease reflected the results of our campaign to encourage on-net usage through discounted fares and specific bundle plans (Liberty and Infinity Plans).

## Circuit leasing and related expenses

Circuit leasing and related expenses represent lease payments to fixed carriers for the use of circuits, interconnecting our network and transporting our customer traffic through third-parties fixed infrastructure. Circuit leasing and related

expenses increased 46.3% in the year ended December 31, 2010 to R\$242.9 million from R\$166.0 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig

Circuit leasing and related expenses increased 14.6% from R\$212.0 million on a pro forma basis in the year ended December 31, 2009. The increase was attributable to the growth in data traffic and value added services.

#### Materials and services

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

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Materials and services costs decreased 0.4% from R\$338.4 million on a pro forma basis incurred in the year ended December 31, 2009. The decrease reflects reduced maintenance costs in the 3G and GSM network.

## Personnel

Personnel costs decreased 3.9% to R\$58.4 million in the year ended December 31, 2010 from R\$60.8 million in the year ended December 31, 2009.

Personnel costs decreased 39.2% from R\$96.1 million on a pro forma basis in the year ended December 31, 2009. The decrease was due principally to corporate restructuring, implementing a new administrative and commercial structure that led to headcount adjustment. During 2010, there has been a 1.6% decrease in our number of employees, from 9,231 in the year ended December 31, 2009 to 9,081 in the year ended December, 2010.

## FISTEL tax and other

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

## Costs of handsets and accessories sold

The cost of handsets and accessories sold in 2010 was R\$1,026.1 million, representing a 10.9% of increase from R\$925.2 million in the year ended December 31, 2009. This increase partially attributable to the effects of 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 2010:

## Statement of Operations Data:

## IFRS

	2010	2009 Pro-forma (1)	Year ended December 31, 2009	2010 - 2009 Pro-forma	Percentage change 2010 - 2009		
	(in million of reais)						
Net operating revenues from services	13,571.6	12,787.9	12,199.0	6.1	%	11.3	%
Cost of services	(6,279.7 )	(6,217.7 )	(5,747.2 )	1.0	%	9.3	%
Gross profit from services	7,291.9	6,570.1	6,451.8	11.0	%	13.0	%
Net operating revenues from sales of cellular handsets and accessories	885.8	959.2	959.2	-7.6	%	-7.6	%
Cost of goods	(1,026.1 )	(925.2 )	(925.2 )	10.9	%	10.9	%
Gross loss from sales of cellular handsets and accessories	(140.3 )	34.0	34.0	-512.8	%	-512.8	%

Gross profit	7,151.7	6,604.1	6,485.8	8.3	%	10.3	%
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(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See “Presentation of Financial Information”.

Our gross profit margin from services (gross profit as a percentage of net service revenues) increased from 52.9% in the year ended December 31, 2009 to 53.7% in the year ended December 31, 2010.

Our gross profit margin from services increased from 51.4% on a pro forma basis in the year ended December 31, 2009 to 53.7% in the year ended December 31, 2010. The increase was mainly due to a decrease of 15.3% in interconnection expenses during the period while registering significant outgoing traffic increase



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Our negative gross margin for sales of mobile handsets and accessories decreased from positive 3.5% in the year ended December 31, 2009 to negative 15.8% in the year ended December 31, 2010. TIM changed its subsidy policy, and 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 caused 50% of our fourth quarter handset sales to be subsidy-free.

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

Our overall gross profit margin increased, from 49.3% in the year ended December 31, 2009 to 49.5% in December 31, 2010. This resulted primarily from an increase in gross profit margin on services, despite negative gross margin for handset sales. Our overall gross profit margin increased, from 48.0% on a pro forma basis in the year ended December 31, 2009 to 49.5% in December 31, 2010.

## Operating expenses

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

## Statement of Operations Data:

## IFRS

	2009		Year ended December 31,		Percentage change	
	2010	Pro-forma (1)	2009	2010 - 2009 Pro-forma	2010 - 2009	
	(in million of reais)					
Operating expenses:						
Selling expenses	(4,494.6 )	(4,501.9 )	(4,436.8 )	-0.2	%	1.3 %
General and administrative expenses	(1,008.7 )	(1,133.8 )	(1,033.4 )	-11.0	%	-2.4 %
Other operating expenses, net	(448.2 )	(460.8 )	(462.1 )	-2.7	%	-3.0 %
Total operating expenses	(5,951.5 )	(6,096.5 )	(5,932.3 )	-2.4	%	0.3 %

(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See “Presentation of Financial Information”.

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

Our total operating expenses decreased 2.4% from R\$6,096.5 million on a pro forma basis in December 31, 2009. This result was mainly attributable to a decrease in G&A expenses.

## Selling expenses

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

Selling expenses decreased 0.2% from R\$4,501.9 million on a pro forma basis in the year ended December 31, 2009.

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

#### General and administrative expenses

General and administrative expenses decreased 2.4% to R\$1,008.7 million in the year ended December 31, 2010 from R\$1,033.4 million in the year ended December 31, 2009.

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General and administrative expenses decreased 11.0% from R\$1,133.8 million on a pro forma basis in the year ended December 31, 2009. This decrease was primarily attributable to lower maintenance and personnel costs for the year ended December 31, 2010.

Other operating expenses, net

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

Net financial expense

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

Net financial expense decreased from a net financial income of R\$267 million in the year ended December 31, 2009 on a pro forma basis. This decrease reflected a positive impact of FX revenues obtained in 2009 result from a non-hedged debt of Intelig.

Income and social contribution taxes

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

Net income

With the impact of the 'tax credit', our net income in the year ended December 31, 2010 was R\$2,211.7 million, representing an increase of R\$1,410.5 million or 176.0% from a net income of R\$801.2 million in the year ended December 31, 2009 on a pro forma basis.

**B. Liquidity and Capital Resources**

As of December 31, 2010, our cash equivalents was approximately R\$2.4 billion and our working capital amounts to approximately R\$0.7 billion. Our cash flow from operations during 2010 was R\$2.9 billion. Based on our business plan, we believe that our cash, cash equivalents, forecasted cash flows from operations and eventual new loans will be sufficient to meet our cash needs for working capital and capital expenditures for the next year.

We expect to finance our capital expenditures and other liquidity requirements for 2011 and 2013 with operating revenue, renewals of maturing indebtedness and new financing to be obtained from financial institutions.

In 2010, the Company disbursed new loans of R\$453 million from (i) BNDES, for an amount of R\$354.6 million; and (ii) European Investment Bank, or EIB, for an amount of R\$78.7 million equivalent to € 34 million.

New financing obtained in 2010 included a long term soft loan (a loan with a below-market rate of interest) obtained from BNDES for an amount of R\$716.9 million of which R\$200 million have been disbursed until December 31, 2010.

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.

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In 2011, the Company plans to complete its current financing needs through its current long term facilities and partial renewal of its short term debt.

### Sources of Funds

#### Cash from operations

Our cash flows from operating activities were R\$2,892.0 million in the year ended December 31, 2010 compared to R\$2,909.1 million in the year ended December 31, 2009. On December 31, 2010, we had positive working capital of R\$734.8 million compared to negative working capital of R\$742.8 million at December 31, 2009.

### 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 (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million. The amount outstanding as of December 31, 2010, including accrued interest, was R\$5 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$30 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.
- Credit Agreement, dated as of April 29, 2005, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of approximately R\$85.3 million. The amount outstanding as of December 31, 2010, including accrued interest, was R\$33 million. The agreement, which matures on April 29, 2013, and bears interest at a rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$128.0 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.
- Credit Agreement, dated as of June 28, 2004, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$99.9 million. The amount outstanding as of December 31, 2010, including accrued interest, was R\$23 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$149.8 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.
- Credit Agreement, dated as of January 28, 2008, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67.0 million. The amount outstanding as of December 31, 2010, including accrued interest, was R\$57 million. The agreement, which matures on January 31, 2016, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Votorantim S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 0.575% per annum of the integral principal amount offered in the Credit Agreement. The guarantee agreement executed by TIM Celular and Banco Votorantim S.A. provides for the issuance of a R\$87.1 million promissory note by TIM Celular. TIM

Participações is not the guarantor in this promissory note.

- Credit Agreement, dated as of August 10, 2005, among BNDES, as lender, TIM Celular, as borrower, and TIM Brasil as guarantor, in the principal amount of R\$1.252 million. The agreement, which matures on August 15, 2013, bears the average interest fixed rate of 4.2% plus the TJLP, which was 6% per annum on

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December 31, 2010. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$583 million.

- Credit Agreement, dated as of October 14, 2005, among BNDES, as lender, TIM Celular, as borrower, and Itaú, as guarantor, in the principal amount of R\$49.3 million. 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, 2010. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$11 million. In connection with this agreement, Itaú 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 (incorporated by TIM Celular), as borrowers, and TIM Participações as guarantor, in the principal amount of R\$400 million. The agreement, which matures on October 15, 2012, bears interest at a fixed rate of 4.82% plus the TJLP, which was 6% per annum on December 31, 2010. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$407 million.
- Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$592.9 million. The agreement, which matures on July 15, 2017, bears the average interest fixed rate of 2.17% plus the TJLP and the interest rate of 2.62% plus the IPCA which was 7.61% per annum on December 31, 2010. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$628 million.
- Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Nordeste (incorporated by TIM Celular), as borrower, and TIM Participações as guarantor, in the principal amount of R\$201. The agreement, which matures on July 15, 2017, bears the average interest at a fixed rate of 2.03% plus the TJLP and the interest rate of 2.62% plus IPCA which was 7.61% per annum on December 31, 2010. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$212 million.
- Credit Agreement, dated as of November 19, 2008 and amended on 29/06/2010, among BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$716.9 million, which R\$200 million was already disbursed. The agreement, which matures on July 15, 2018 bears interest of i) fixed rate of 3,62% plus the TJLP and ii) fixed interest rate of 4.5% per annum. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$180 million.
- 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, Société Generale, as lenders, TIM Celular, as borrower, and TIM Participações, as guarantor, in the principal amount of R\$568.75 million. The Tranche A of R\$300 million, which matured on August 5, 2010, bears interest at a variable rate of 1.8% above the CDI interest rate. The Tranche B, which matured on August 5, 2010, bears interest at a variable rate of 2.75% above the CDI interest rate. The total debt was fully repaid during 2010. Hence, on December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$0.
- Credit Agreement, dated as of April 18, 2008, among Santander as lender, and TIM Celular, as borrower, in the principal amount of R\$150.0 million. The agreement, which matures on April, 2011, bears interest at a variable rate of 110% of the CDI interest rate. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$154 million.

- Credit Agreement, dated as of May 5, 2008, among Santander as lender, and TIM Celular, as borrower, in the principal amount of R\$50.0 million. The agreement, which matures on April 25, 2011, bears interest at a variable rate of 109.6% of the CDI interest rate. On December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was R\$51 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 outstanding amount as of



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December 31, 201 was R\$166 million, including accrued interest. The last tranche of which matures on June 2011, bear an average cost of 108% 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 (incorporated by TIM Celular) S.A., as borrowers and TIM Participações as guarantor, in the total principal amount of 200 million euros fully disbursed, and fully swapped into local currency, between September 2009 and June 2010. The total outstanding amount as of December 31, 2010 is R\$479 million, including accrued interest. The drawings, the last of which matures on June 2017, bear an average cost of 95.40% of the CDI after hedging. The Guarantee was provided by BBVA Milan Branch and BES Portugal for the principal amount of € 200 million.
- Facility Agreement, dated as of November 28, 2008, between BNP Paribas, as lender, and TIM Celular S.A., borrower and TIM Participações as guarantor, in the total principal amount of U.S. \$ 143.6 million fully disbursed and swapped on January 15, 2009. The total outstanding amount as of December 31, 2010 is R\$245 million, including accrued interest. The agreement matures on December 2017 and bears an average cost of 95.01% of the CDI after hedging.
- The amount of USD 68 million with Morgan Stanley Senior Fund registered at Intelig as a long term liability on December 31, 2009, was fully prepaid at January 4, 2010. Hence, on December 31, 2010, the outstanding amount under this credit agreement, including accrued interest, was zero.

See notes 18 and 37 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, 2010, were the Capital Expenditures, the payment of dividends to our shareholders and loan repayments.

### Investments in Fixed Assets

Our capital expenditures in 2010 and 2009, 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, 2010 and 2009:

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

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(1) The 2009 Pro-forma information reflects the Intelig acquisition as if it had occurred on January 1st, 2009. See “Presentation of Financial Information”.

Our Board of Directors has approved our budget for capital expenditures from 2011 to 2013 in the total amount of R\$8.5 billion and R\$2.9 billion in 2011 for expenditures relating to our subsidiaries TIM Celular and TIM Nordeste. Most of the capital expenditures we budgeted for 2011 to 2013 relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. See “Item 4.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 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.

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, 2010, 2009 and 2008:

Dividend Distribution (1)	Year ended December 31,		
	2010	2009	2008
	(in millions of reais)		
Dividends	201.2	R\$168.1	R\$207.6
Interest on shareholders’ equity	-	-	-
Total distributions	201.2	R\$168.1	R\$207.6

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

results.

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. Pursuant to Brazilian law, the voting rights of the Preferred Shareholders automatically terminate as soon as the Minimum Dividend is paid to them. On June 10, 2011, the 2010 Dividend was paid to the Preferred Shareholders and consequently the Preferred Shareholders ceased to have voting rights in the Shares

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### 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, 2010, TIM's subscriber base ended the year with 51.0 million clients, 24.1% from the year ended December 31, 2009. This represented a market share of 25.1%, while the service revenues share, our primary focus, reached 27% in the year ended December 31, 2010, compared to 26% in the year ended December 31, 2009. The pre-paid segment reached 43.5 million users in the year ended December 31, 2010, an increase of 25.7% from the year ended December 31, 2009. The number of post-paid users was 7.5 million in the year ended December 31, 2010, a 15.7% increase from the year ended December 31, 2009.

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 2011, we plan to improve our 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 14.6% of our total subscriber base in the year ended December 31, 2010, compared to 15.7% from a year ago, largely due to the increase of pre-paid base.

#### Average Revenue Per User (ARPU) Per Month

TIM's ARPU registered R\$23.7 in the year ended December 31, 2010, a decrease of -10.8% when compared to R\$26.6 presented in the year ended December 31, 2009. The trend is partially attributed to an increase of 25.7% in the pre-paid segment and a lower incoming revenue contribution.

Revenues from value-added services had an important role in offsetting ARPU's downward trend of the market as a whole. In 2010 we registered a value-added service revenue growth of 18.2% and accounted for 11.9% of total gross service revenue (compared to 10.6% registered in 2009). 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 2010, despite the competitive environment, our gross acquisition cost (per gross addition) was R\$73 for the year ended December 31, 2010, compared to R\$115 in the year ended December 31, 2009. The decrease of 36.6%

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reflects our different approach regarding subsidy and commission. Our chip only strategy reduced sharply the expenses of handset subsidy and the restructuring of commission policy and the adoption of new alternative sales channels decreased commission expenses.

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

In 2010, despite the competitive environment, our gross acquisition cost (per gross addition) was R\$54 for the year ended December 31, 2010, compared to R\$85 in the year ended December 31, 2009. The decrease of 36.4% reflects the rational go to market approach, with a sharp drop in subsidies, commission and advertisement expenses per gross addition.

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 2010 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.

The Brazilian mobile telephony market is the fifth largest in the world and reached a penetration level of 104.6 telephone lines for every 100 inhabitants in 2010. This confirms that mobile telephony is the mean of communication with the widest presence in Brazilian homes and across all social classes, which we believe is a consequence of chip-only offers (offer of SIM cards without a handset).

The prepaid segment has the largest growth in 2010, reaching 167.1 million accesses (+16.4% A/A), which represents 82.3% of total market. The postpaid segment reached the mark of 35.8 million lines, an 18.1% YoY expansion. The key growth drivers to both sectors were the favorable economic scenario in Brazil, with increased credit, better income distribution (with part of population migrating from the D and E class to C class), and competition in Brazil's mobile telephony market.

According to data published by Teleco's website, the fixed telephony sector showed a slight growth of 1.2% compared to last year, ending the period with 42 million lines, representing a penetration level of approximately 21.7 lines for each 100 households.

The sector also went through important mergers and acquisitions in 2010, especially the sale of Portugal Telecom's stake in Brasilcel (Vivo's parent company) to Telefónica. After several attempts, the Spanish company became the sole

controller of Vivo and has already started the integration process with its fixed telephony arm (Telesp) in Brazil.

With the capital acquired from the sale of Brasilcel, Portugal Telecom has purchased a stake in the controlling group of Oi. The company has kept its presence in Brazil and has given the Brazilian company enough capital to expand its operations after a year of stagnation.

Other important M&A event was Embratel's tender offer for NET's nonvoting shares. Embratel managed to take control of more than 90% of NET's total capital and also started the consolidation process between its telecom



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companies (Claro, NET and Embratel). 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 coverage of 94% 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 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, 2010:

	Payments due by Period (in millions of reais)				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Total debt (post hedge)	3,378,355	953,498	1,200,854	365,699	858,304
Operating leases(1)	1,777,083	329,412	696,852	750,819	-
Total(2)	5,155,438	1,282,910	1,897,706	1,116,518	858,304

(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 42 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 2011, we expect to have approximately R\$2.9 billion in capital expenditures relating to our subsidiaries. Most of the planned 2011 capital expenditures relate to extending TIM’s infrastructure capacity and coverage, ensuring high quality levels and supporting the market strategies and updating and developing TIM’s systems and technological

platforms. See “Item 4.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

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1999. We are also contingently liable for the unfunded obligations of the PBS Plan with respect to our employees participating in this plan. See note 38 to our consolidated financial statements.

In November 2002, we created a separate defined contribution plan (the “TIMPREV Pension Plan”). Migration to this plan was optional for employees linked to the PBS Plan. Migration to the TIMPREV Pension Plan extinguishes the migrating participant’s rights under the PBS Plan. We are also contingently liable for the unfounded obligations of the TIMPREV Pension Plan with respect to our employees participating in this plan. See note 24 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.

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, “Regulamento para Observância dos Atos Anatel nº 68.276, de 31 de outubro de 2007, e nº 3.804, de 07 de julho de 2009”, and “Regulamento para a observância do Acordo de 28 de abril de 2010 celebrado com o Conselho Administrativo de Defesa Econômica (CADE)”.

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

Name	Title	Date of Birth	Date Appointed
Manoel Horácio Francisco da Silva	Chairman	July 16, 1945	April 11, 2011
Gabriele Galateri di Genola e Suniglia	Director	January 11, 1947	April 11, 2011
Luca Luciani	Director		April 11, 2011

		November 2, 1967	
Marco Patuano	Director	June 6, 1964	April 11, 2011
Stefano de Angelis	Director	August 22, 1967	April 11, 2011
Andrea Mangoni	Director	June 5, 1963	April 11, 2011
Maílson Ferreira da Nóbrega	Director	May 14, 1942	April 11, 2011
		October 22, 1940	
Adhemar Gabriel Bahadian	Director	1940	April 11, 2011
Carmelo Furci	Director	March 12, 1953	April 11, 2011

In addition, it shall be recorded that Messrs. Francisco da Silva, Nóbrega, Bahadian, and Furci are the members of the Board of Directors qualified as independent directors according to Brazilian independence standards. They are

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scheduled to be re-elected or replaced at the Annual Shareholders' Meeting to be held in 2013. Set forth below are brief biographical descriptions of the members of the Board of Directors.

Manoel Horácio Francisco da Silva. Mr. Francisco da Silva 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 and confirmed in the office on April 15, 2008 until April 11, 2011, when he was reappointed as member of the Board of Directors of Telecom Italia After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analysis Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy 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, Chairman of the Board of Directors of Tim Brasil Serviços e Participações SA, a non-executive Board Member of TIM Participações S.A., Banca CRS S.p.A., Banca CARIGE, Italmobiliare S.p.A., Azimut-Benetti S.p.A., Fiera di Genova SpA, Accademia Nazionale di Santa Cecilia-Foundation, European Institute of Oncology and Edenred SA, 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. Mr. Galateri has been awarded the Cavaliere del Lavoro Honour. He is the Chairman of the Board of the Italian Institute of Technology and Member of the International Advisory Board of the Columbia Business School. He is a member of the General Council and of the Executive Board of Assolombarda. Since April 8 2011 he is Chairman of Assicurazioni Generali.

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. He began his career in 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, Operations for Telecom Argentina between May 2007 and July 2008. He was appointed a director at Telecom Italia Media and the Italtel group in September 2008. From August 2008 to November 2009 he was Telecom Italia's Chief Financial Officer. In November 2009 he is appointed responsible for Domestic Market for Telecom Italia. He is also member of the

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Board of Bocconi Foundation and Telecom Italia Foundation. He sits in the Board of Shared Service Center Srl and TLC Commercial Services srl. Since April 13 2011 he is Chief Executive Officer of Telecom Italia SpA.

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

Andrea Mangoni. Mr. Mangoni graduated from the University of Rome in 1988 with a thesis on valuation and private financing of investments in public infrastructures. Presently, he is Responsible for Administration, Finance and Control & International Development in Telecom Italia. Mr. Mangoni joined the Telecom Italia Group on July 1, 2009, as Chairman of Telecom Italia Sparkle (from July 2009 to July 2010) and as Director of International Business at Telecom Italia S.p.A.. From 1996 to March 2009 he worked in Acea, where he was appointed Chief Executive Officer in November 2003; from March 2003 to November 2003 he was General Manager of Acea; from June 2001 to February 2003 was Chief Financial Officer, responsible of strategies, finance, budget, economic planning and control, investor relations of Acea; in 2002 he was appointed common representative of the Joint Venture among Acea, Electrabel and Energia Italiana which brought to the acquisition of Interpower, the third generation company sold by Enel; from January 2000 to May 2001 he was Strategic Planning Director of Acea; from January 1998 to December 1999 he worked as manager of the Finance Department of Acea and he was responsible of strategic planning; from 1996 to 1997 he was President Assistant, responsible for the transformation process of Acea from municipal company into share capital company. Mr. Mangoni worked for InterAmerican Development Bank (IDB).

Maílson Ferreira da Nóbrega. Mr. Nóbrega 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.

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.

Carmelo Furci. Mr. Furci is currently partner of Furci Consulting LTDA., focused on doing business in Brazil. In 2010, he became the Chief Executive Officer of the Ongoing Group, responsible for publishing economic diaries. He was appointed to the Board of Directors of TIM Participações S.A. on August 6th, 2008 and as Chairman of TIM Brasil Serviços e Participações S.A.. He was appointed as Vice President of Telecom Italia Group in Latin America, on June 14th, 2008. After earning his first degree in 1978, he worked as a consultant in Vector - Center for Social and Economic Studies in Amsterdam and Santiago, Chile. In 1982, he earned his Doctorate of Philosophy in



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Economics and Government at the London School of Economics (LSE), part of London University. After three years working as a NATO Senior Fellow in Political Science, he spent the years of 1983 and 1984 at the London School of Economics (LSE), where he became an Honorary Fellow in Latin American Studies. In 1984, he taught international relations at American University of Rome (AUR). Mr. Furci worked at Enimont from 1985 to 1989 as Supervisor of International Relations. In the following year he joined the World Bank, as head of the department of Foreign Affairs for Europe and the Vatican State. Within 1994 and 1997, he worked as Manager of Strategies for International Affairs. Since he joined the Telecom Italia Group in 1998, he held several positions, starting as Chairman of the Board of Directors and Chief Executive Officer of Telecom Italia do Brasil, and head of Economic and Public Affairs of Telecom Italia Latin America. After returning to Italy, he joined the Division of Financial Management and Control in 2002, where he became responsible for relations with international financial organizations, to which position he was reelected in 2006. From December 2007 to May 2008, he was appointed as Coordinator of the Director Committee for Telefónica Group relations. Mr. Furci held the positions of director of Telecom Italia Group companies, namely: Solpart, Brazil Telecom, ETECSA Cuba, Entel Bolivia and Entel Chile. He was also the Chairman of Tele Nordeste Celular and Tele Celular Centro Sul in Brazil. He is a member of the OECD task force in China, and wrote several books about Latin America.

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 27, 2010, our Board of Executive Officers is comprised of at least two and no more than nine members, who may or may not be shareholders. The title of the members of our Board of Executive Officers shall be as follows: (i) Chief Executive Officer, (ii) Corporative Support Officer, (iii) Chief Financial Officer, accumulating with the function of Investor Relations Officer, (iv) Purchasing & Supply Chain Officer, (v) Chief Commercial Officer, (vi) Chief Marketing Officer, (vii) Regulatory Affairs Officer, (viii) Wholesale 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
Luca Luciani	Corporative Support Officer	November 2, 1967	May 3, 2010
Lorenzo Federico Zanotti Lindner	Chief Commercial Officer	August 10, 1973	May 3, 2010
Rogério Takayanagi	Chief Marketing Officer	October 5, 1974	May 3, 2010
Mario Girasole		June 8, 1968	

	Regulatory Affairs Officer		December 13, 2010
Antonino Ruggiero	Wholesale Officer	November 29, 1965	December 13, 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

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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 Getulio 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 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.

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 Getulio 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.

Mario Girasole. Mr. Girasole is an Italian citizen, with Laurea Magistralis in Economics, University LUISS (Rome). Has an L.L.M. in International Business Law (London), post graduate in Competition Policy, in International Commerce and Modern Economic History, and executive education at London Business School (Finance) and Harvard (School of Government). He joined TIM in 1997, for the regulatory and pricing area, in Rome. Previously, he was responsible for economic analysis in antitrust in law firms. From 2000 until 2003, he headed, in Brussels, the TIM group relations with the institutions of the European Union, and was appointed to the position of Deputy-Chairman of the European Mobile Sector (GSM Europe). Since 2004 in Brazil, he became Chief of Public and Economic Affairs at Telecom Italia America Latina. During this period, he worked also as Director of Entel Bolivia and Alternate Director of TIM Participações S.A. Mr. Girasole is the Regulatory Affairs Officer of TIM Participações S.A., since January 2009, and member of Board of Directors and of Officers of national and international entities, including Febratel, Accel / Telebrasil, GSM Latin America, Department of Infrastructure and the House of FIESP Italo-Brazilian Trade.

Antonino Ruggiero. Mr. Ruggiero is an Italian citizen, graduated at the Instituto Tecnico Industriale Electronic Napoli (Italy). Worked in Technical Support Engineer of Ericsson (Mobile Network Area) and BT Italia (Long Distance Operator Area). From 1994 to 1997, he worked as Manager of Network Operations at Vodafone. From 1997 to 2000,

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

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## Fiscal Committee

The Fiscal Committee's composition for 2011 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
Alberto Emmanuel Carvalho Whitaker	October 10, 1940	April 11, 2011	1 year
Oswaldo Orsolin (*)	May 30, 1943	April 11, 2011	1 year
Carlos Alberto Caser	December 8, 1960	April 11, 2011	1 year
Samuel de Paula Matos (*)	March 22, 1948	April 11, 2011	1 year
Jorge Michel Lepeltier (*)	September 29, 1947	April 11, 2011	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."

## B. Compensation

At the year ended on December 31, 2010, we approved the aggregate amount of approximately R\$4.3 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 2010. 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 provide 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 on December 31, 2010, each member of our Board of Directors received R\$168,000 and each member of our Fiscal Committee received an annual compensation of R\$150,000, 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. However, we are required to disclose the maximum, medium and minimum amounts paid to the members of each corporate body.

C. Board practices

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

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## D. Our Employees

On December 31, 2010, we had 10,138 full-time employees. The following tables show a breakdown of our employees as of December 31, 2010, 2009 and 2008.

	As of December 31,		
	2010	2009(*)	2008
Total number of employees	10,138	9,811	10,296
Number of employees by category of activity			
Network	980	1,011	771
Sales and marketing	3,020	2,888	3,420
Information technology	447	459	449
Customer care	4,703	4,320	4,589
Support and other	988	1,133	1,067

(\*) 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 2011. 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.

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 38 to

the consolidated financial statements.

During 2002, TIM created a new defined contribution pension plan (“TIMPREV”), which 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%



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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. The situation was solved in 2009 and a new cycle of migration encouragement for TIMPREV was offered. On this occasion more participants migrated to TIMPREV plans, one of the plans (PBT) was closed.

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

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

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

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

On January 31, 2006, 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.

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

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

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, 2010, our directors and executive officers, owned, in the aggregate, no common shares and 100 preferred shares.

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## 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, 2010. 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, 2010, there were 349,964,441 preferred shares represented by ADSs. As of such date, the number of preferred shares represented by ADSs represented 21.44 of the total number of preferred shares outstanding and 14.1 of our total capital.

## B. Related Party Transactions

As of December 31, 2010, 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\$17.974 million and R\$44,548 million, respectively on December 31, 2010. See note 36 to our consolidated financial statements.

## Guarantees of Obligations of our Subsidiaries

We are a guarantor of a promissory note issued by TIM Celular in the amount of R\$7.5 million as of December, 2010. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million. 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 Celular in the amount of R\$37.5 million as of December 31, 2010. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of

R\$99.9 million . 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 Celular in the amount of R\$49.8 million as of December 31, 2010. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of April 27, 2005, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$85 million. 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\$48.9 million as of December 31, 2010. 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 million. See “Item 5B.

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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 in the amount of R\$73.9 million as of December 31, 2010. This promissory note was issued pursuant to a guarantee agreement between Banco Votorantim S.A. and TIM Celular, in which Banco Votorantim S.A. issued a letter of guarantee for the Credit Agreement, dated as of February 14, 2008, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67 million. 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 € 200 million as of December 31, 2010. BBVA Milan Branch and BES Portugal, issued, respectively, a guarantee in the principal amount of € 147 million and € 73 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 (incorporated by TIM Celular). See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources— Financial Contracts.”

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

This agreement, originally signed in May 3, 2007, was extended for an additional 12 months beginning on January, 2010 pursuant to the approval by TIM Participações’ shareholders in a meeting held on April 27th, 2010. 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 € 8.9 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 2010. Under the agreement’s first extended term, the price cap amounted to €10.5 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 PVC/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. Despite the call notice to summon other interested party, there was no admittance in this lawsuit. On July 2, 2009, the judge extinguished the action again, but this decision was subject of another compulsory appeal at a superior court. We are waiting for the second instance’s court decision.

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.



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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 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.

On January 10, 2010, the judge dismissed the case and the decision was subject to compulsory appeal at superior court. We are waiting for the second instance court's decision.

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 second instance. In April 2011, this appeal was dismissed and we are waiting for the superior court's instance decision. 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 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.

#### 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

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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, 2010, we were a party to approximately 69,669 consumer protection claims and 2,350 labor law claims. There are also 228 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.

### 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 Telpo 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.

### 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 May 2005, the Brazilian tax authority in the state of Minas Gerais issued five tax assessment notices to TIM Nordeste. Two of these notices related 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 (IRRF) assessment, all related to 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

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swap arrangements; (ii) alleged exclusion of exchange rate variations of foreign debt that were improperly eliminated and deducted as an expense from cash flow statement; and (iii) the imposition of a penalty based on the argument that the tax should have been collected based on estimated income. The notice relating to the IRRF assessment alleges that the tax paid was less than the tax due because the calculation of IRRF was made considering as a basis of calculation the net amount between revenue and expense.

We are challenging these tax assessments with the appropriate Brazilian tax authorities and a final decision is pending. The total value of the five tax assessments 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 described 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 with the fiscal authorities. The remaining amount in discussion is R\$209.8 million, with a provision of R\$24.2 million.

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.

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 IRRF and CIDE over remittances abroad for payment of international interconnection. The aforementioned notice is being contested, with the administrative proceeding on suspended liability. Considering that Intelig had a final positive decision related to the Writ of Mandamus issued by the company in order to recognize the effects of Melbourne Treaty in Brazil (exception of taxes), the tax assessment will be cancel by administrative authorities.

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 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 (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”).

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Also 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”).

On March 22, 2011, TIM Celular, received a notice of tax assessment issued by the Brazilian Federal Revenue Office in the total amount of 1,265 million Brazilian reais (approximately 550 million euros), including penalties and interest, upon completion of a tax audit covering the years 2006, 2007, 2008 and 2009 of TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A. (formerly denominated Maxitel), companies that were merged in several steps into TIM Celular for the purpose of simplifying the corporate structure in Brazil.

The notice of tax assessment contained a number of matters, of which the most significant are summarized as follows: (i) the disallowance of the deduction of amortization of goodwill related to the acquisition of Tele Nordeste Celular Participações S.A. (“TNC”) which was originally recorded by Bitel Participações S.A. (Bitel); (ii) the incorrect exclusion of the goodwill previously amortized by Bitel, 1B2B and TNC, and transferred to the LALUR (Livro de Apuração do Lucro Real – IRPJ Taxable Income report) of the TIM Brasil group operating companies; and (iii) the disallowance of the tax effects of the merger between TIM Nordeste Telecomunicações S.A. and Maxitel S.A.

The matters raised in the notice of tax assessment will be challenged by TIM Celular in administrative court with the filing of an initial defense document by April 25, 2011. Management, with the assistance of external tax advisors, is compiling defense documentation and believes that the likelihood of a significant negative outcome for the Company in respect to this matter is not probable.

### 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, that was 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 and are based on the following facts: (a) non tax-deduction of the expense resulted from the goodwill pay-off; (b) exclusion of the goodwill registered in the book taxable income (LALUR) of the company merged into TIM Nordeste; (c) improper set-off of the debt disallowance and tax loss carryforward 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\$82.3 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\$10.9 million. Based on its internal and external lawyers' opinion, we have not set up a provision for the above mentioned tax assessments.

In December 2010, TIM Celular received a tax assessment notice from the Federal Revenue Department in the sum of R\$164.1 million related to the set-off of the premium paid (goodwill) 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



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resulted from the goodwill pay-off; (b) exclusion of the goodwill registered in the book taxable income (LALUR) of the company merged into TIM Nordeste; (c) the company was not entitled to enjoy the tax benefit relating to SUDENE because it failed to present the authorities the request based in which they should have acknowledged its right to use the tax benefit.

### 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 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.

In May, 2010, TIM Celular received a tax assessment notices issued by the Federal Revenue Department in the sum of R\$50 million related to (i) lack of payment of Income Tax on income of residents abroad returned by way of international roaming and payment to beneficiaries not identified, (ii) non-payment of CIDE on royalties in remittances abroad and on remittances to international roaming, and (iii) reduction of tax losses (income tax and social contribution) for the deduction of expenses not substantiated by way of technical services. These assessments were timely contested by the subsidiary and awaiting a decision on an administrative level.

### 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.

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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 TIM from the payment of the ICMS tax on activation fees in certain Brazilian States. In other States TIM is 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. TIM has been granted favorable final decisions relating to the states of Paraná, Santa Catarina, Sergipe, Alagoas, Rio Grande do Sul 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 Incorporated Company (TIM Sul), as well as commercialization of mobile devices. The amount currently in discussion is of R\$41.6 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 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\$105.7 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\$50.4 million.

The former TIM Nordeste and current TIM Celular, received, tax assessment notices entered by the fiscal authorities of the States of Paraíba, Rio de Janeiro, Bahia, São Paulo and Goiás in the respective amounts of R\$8.2 million, 38.2 million, 8.5 million, 20 million, 47 million and R\$7.4 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.

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\$286.010 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 November 2002, the controlled company Intelig 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 fixed assets and material destined to be used and consumed by the company. The tax assessment notice is being defended judicially.

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In November 2005, the controlled company Intelig 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 fixed assets without the support of the respective invoice, and relating to the credit of difference rate of ICMS paid by the company in an interstate transfer or acquisition of fixed assets. The tax assessment notice is being defended judicially.

In December 2007 and December of 2008, the controlled company Intelig received two tax assessments notices entered by the State Treasury of São Paulo in the respective amounts of R\$6.2 million and R\$11.3 million, respectively, 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 was initiated. The tax assessment notice corresponding to the year of 2003 is still being defended administratively.

In August 2009, the controlled company Intelig received a tax assessment 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 2008 and 2009, the former TIM Nordeste and TIM Celular, received tax assessment notices, in a total sum of R\$122.2 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.

In January 2010, TIM Celular received a notice of tax assessment issued by the State of São Paulo related the debit originated from improper reversal of ICMS credit arising from goods shipped to the Zona Franca de Manaus (free trade zone) in the amount of R\$6.4 million. The notice is being defended on administrative instance by the companies.

The controlled companies TIM Celular received notices of tax assessments in a total sum of R\$56.4 million, entered by the fiscal authorities of the State of Paraíba and Paraná related to non-payment of ICMS on the provision of telecommunications service (pre-paid model). The notice is being defended on administrative instance by the companies.

In April 2010, TIM Celular received notices of tax assessments issued by the State of Rio de Janeiro, totaling R\$17.6 million, about (i) non payment of ICMS as ST (responsible taxpayer), related to goods transferred from stock to fixed assets,; (ii) the company kept the credit of ICMS related to goods that were sold with the price below to the cost of acquisition. These tax assessments are being litigated on administrative instance.

In November 2010, TIM Celular received notices of tax assessments issued by the State of São Paulo, totaling R\$18.4 million, about the improper credit of ICMS on telecommunication services not provided due to subscription fraud, and alleged duplicity in crediting of ICMS on 2005. The tax assessments are being defended on administrative instance.

In November 2010, TIM Celular received notices of tax assessments issued by the State of São Paulo and Rio Grande do Sul, totaling R\$68.0 million, about reversal of ICMS credit on acquisition of fixed assets allegedly without proof of the merits of accounting book. The tax assessments are being defended on administrative instance.

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 is related to site-sharing agreements (infrastructure). The municipality wants to charge the ISS over these 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). TIM is challenging this tax assessment with the appropriate Brazilian tax authorities and a

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final decision is pending. IM believes that there is a possibility of being required to pay this tax assessment but that it is not probable. Accordingly, no provision was made 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 discount, cancel services, 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 mobile providers in Brazil, had filed a lawsuit and obtained a preliminary injunction (now confirmed by a first level decision, still subject to appeal) authorizing the company not to collect the FUST related to interconnection revenues received from other company. TIM has not been collected the FUST assessed on interconnection fees.

Since October of 2006, Anatel is entering tax assessments 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 2005 as well as penalty. Such tax assessments notices sum the amount of R\$194.7 million.

The Controlled Intelig received several tax assessments notices entered by Anatel totalizing the sum of R\$45.6 million, which are related to the amounts of FUST on revenues of interconnection transferred to others companies, supposedly due in the period 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 assessments notices against TIM Celular and the old TIM Nordeste, in the total sum of R\$166.9 million, which make reference to the amounts of FUNTTEL on revenues of interconnection received from others companies, related to the years of 2001 to 2005, as well as penalty. The understanding of the 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 mandamus and obtained a preliminary injunction authorizing us not to collect the FUNTTEL tax related to interconnection revenues. We estimate the chance of an adverse ruling in this matter is possible. For this reason, we have not made any accrual in connection therewith.

The Controller Intelig received tax assessment notices entered by the Ministry of Communication in the sum of R\$14.6 million, which are related to the amounts of FUNTTEL on revenues of interconnection transferred to others companies, for the periods of January to December of 2002, March to December of 2003, April to December of 2004 and January to November of 2005, 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, 2010, 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”):



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- 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, is accordingly required to pay dividends to us. All of the aforementioned distributions may be made as dividends or as tax-deductible interest on capital.

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, 2010, the balance of our

legal reserve was R\$226.8 million, which is approximately equal to 2.78% 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 are defined as the amount of net profits that exceeds the net

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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 or 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 shareholder's 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 CVM Rules adapted to the IFRS.

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 to 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 CVM Rules adapted to the IFRS.

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:

- 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.

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### 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 Unibanco S.A., as the agent for the Depositary, J.P. Morgan 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 Depositary which will then convert those proceeds into dollars and will cause such dollars to be delivered to the Depositary 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 fully pay the minimum dividends or interest on shareholders' equity for the years-ended on December 31, 2008, and 2009. As a result, the holders of our preferred shares were entitled, from 2010 on, to have the same voting rights as the holders of common shares, until TIM Participações pays dividends again. At the Annual and Extraordinary Shareholders' Meeting held on April 11, 2011, the distribution of the mandatory minimum dividends to the holders of common and preferred shares, which included the minimum dividends of the preferred shares was approved. Such mandatory minimum dividends are to be paid within 60 days from the shareholders' meeting discussed above. Therefore, as soon as such payment is done, the holders of preferred shares shall not be entitled to full voting rights. Minimum dividends are noncumulative, calculated according to the Company's bylaws.

### B. Significant Changes

None.

### Item 9. The Offer and Listing

#### A. Offer and Listing Details

The preferred shares trade principally on the BM&FBOVESPA under the symbol "TCSL4". On December 31, 2010, we had 642,332,664 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 J.P. Morgan Chase Bank, N.A. (the "Depositary" or "J.P. Morgan"), 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:

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	New York Stock Exchange		São Paulo Stock Exchange	
	HIGH	LOW	HIGH	LOW
	(in U.S. \$ per ADS)		(in reais per preferred shares)	
<b>Year ended</b>				
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
December 31, 2010	35.07	23.58	5.90	4.27
<b>Year ended December 31, 2009</b>				
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
<b>Year ended December 31, 2010</b>				
First quarter	30.43	24.68	5.09	4.45
Second quarter	28.69	23.58	4.94	4.15
Third quarter	32.99	26.25	5.41	4.59
Fourth quarter	35.07	30.90	5.73	5.08
<b>Quarter ended March 31, 2011</b>				
March 31, 2011	43.72	33.65	7.12	5.51
<b>Month ended</b>				
December 31, 2010	34.62	32.75	5.63	5.30
January 31, 2011	39.12	33.65	6.17	5.35
February 28, 2011	38.72	36.30	6.13	5.72
March 31, 2011	43.72	37.22	6.92	5.97
April 30, 2011	47.42	44.36	7.31	6.88
May, 2011	49.14	43.68	7.81	6.94

**B. Plan of Distribution**

Not applicable.

**C. Markets****Trading on the Brazilian Stock Exchanges**

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

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

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



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

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

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, BM&FBOVESPA has implemented certain new initiatives, including:

- a classification system referred to as “Differentiated Levels of Corporate Governance” applicable to the companies already listed in BM&FBOVESPA; and
  - a new separate listing segment for qualifying issuers referred to as the Novo Mercado, 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 BM&FBOVESPA. The companies may be classified into two different levels, depending on their degree of adherence to the BM&FBOVESPA’s practices of disclosure and corporate governance.

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

- ensure that shares amounting to at least 25% of its capital are outstanding and available for trading in the market;
  - adopt procedures that favor the dispersion of shares into the market whenever making a public offering;
    - comply with minimum quarterly disclosure standards;
- follow stricter disclosure policies with respect to transactions with controlling shareholders, directors and officers involving the issuer's securities;

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- submit any existing shareholders' agreements and stock option plans to the BM&FBOVESPA; and
  - make a schedule of corporate events available to the shareholders.

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

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

- require all directors to serve unstaggered one-year terms;
- prepare and publish annual financial statements in English and in accordance with U.S. GAAP or IFRS;
- create tag-along rights for minority shareholders, ensuring holders of common shares of the right to sell on the same terms as a controlling shareholder, and ensuring preferred shareholders a price equal to at least 80% of that received by the selling controlling shareholder;
- grant preferred shareholders the right to vote in certain cases, including, without limitation, the transformation, spin-off or merger of the company, and approval of agreements with related parties;
- make a tender offer for all outstanding shares, for a price equal to fair market value, in the event of delisting from Level 2 qualification; and
- agree to submit any disputes between the company and its investors exclusively to the BM&FBOVESPA's Market Arbitration Chamber.

The 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.

On May 20th, 2011 the Board of Directors of TIM Participações Resolve and recommend to the Extraordinary General Shareholders' Meeting of the Company its migration to the listing segment "Novo Mercado" of BM&FBOVESPA, which took place on June 22nd. With this migration TIM moves to the highest level of corporate governance. Only 26% of Brazilian listed companies are in the Novo Mercado and TIM will be the only telecom stock among them. After the migration, TIM will have only one class of share (ordinary) and will grant 100% tag-along rights in case the company is sold.

**BM&FBOVESPA Market Administration Panel**

Pursuant to Law Nr. 9,307/96, a Market Arbitration Panel (the "Panel") has been established by the BM&FBOVESPA. The Panel was established to settle certain types of disputes, including disputes relating to corporate governance, securities issues, financial regulatory issues and other capital market matters, with respect to BM&FBOVESPA listed companies that have undertaken to voluntarily comply with Level 2 and New Market levels of corporate governance and disclosure. The Panel will provide a forum for dispute resolution involving, among others, the BM&FBOVESPA, the applicable listed company and the shareholders, directors and management of the applicable listed company.

### Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385, of December 7, 1976, and Brazilian 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 BM&FBOVESPA be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BM&FBOVESPA.

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

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

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### 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 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 as 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;



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- 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.

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 controlled companies 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

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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 an annual or extraordinary shareholders' meeting to be held. The notification must occur at least 15 days prior to the meeting scheduled date. However, according to our by-laws, such notification must occur at least 30 days prior to the meeting convened to resolve on the matters listed on section 136 of the Brazilian Corporations Law. 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.

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:

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- 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.

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. These 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 are 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 Bradesco 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 Depositary.

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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, through its local agent, of the certificate of registration to reflect the new ownership.

BM&FBOVESPA reports transactions carried out in its market to the Central Depositária BM&FBOVESPA, which is the exchange's 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.

### 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.



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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 are 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.

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

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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 in the future. 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 Depository 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 2011 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 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 1,927, 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 are 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.

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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 amounts 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 BM&FBOVESPA on the day of the deposit; or
- if no preferred shares were sold on that day, the average price per preferred share on the BM&FBOVESPA 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 that were conducted 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 that were not conducted on the Brazilian stock exchanges.

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 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.

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Payments of interest on capital are decided by the shareholders on the basis of recommendations by our Board of Directors.

Distributions of interest on capital paid to Brazilian and non-Brazilian holders of preferred shares, including payments to the Depositary in respect of preferred shares underlying ADSs, are deductible by us for Brazilian tax purposes up to the limit mentioned above. 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 is 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/Exchange Tax applies upon conversion of foreign currency into Brazilian reais related to equity or debt investments on the Brazilian stock exchanges (such as BM&FBOVESPA, where our preferred shares are listed) by foreign investors, 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. 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.

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;



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- 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.

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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.

### 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, 2013 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.

### 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.

### Foreign Tax Credits in Respect of Brazilian Taxes

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.

A U.S. Holder will be entitled to use foreign tax credits to offset only the portion of its U.S. tax liability that is attributable to foreign-source income. This limitation on foreign taxes eligible for credit is calculated separately with regard to specific classes of income. Because a U.S. Holder's gains from the sale or exchange of preferred shares or ADSs will generally be treated as U.S.-source income, this limitation may preclude a U.S. Holder from claiming a credit for all or a portion of the Brazilian taxes imposed on any such gains. U.S. Holders should consult their tax

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advisers as to whether these Brazilian taxes may be creditable against the U.S. Holder's U.S. federal income tax liability on foreign-source income from other sources.

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.

The Brazilian IOF/Exchange Tax imposed on the deposit of preferred shares in exchange for ADSs and the cancellation of ADSs in exchange for preferred shares (as discussed above under "—Brazilian Tax Considerations") will not be treated as creditable foreign tax for U.S. federal income tax purposes. U.S. Holders should consult their tax advisers as to whether those taxes would be deductible for U.S. federal income tax purposes.

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.

### 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 2010 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 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.

Pursuant to a recent amendment to the Code, if the Company were a PFIC in any taxable year, a U.S. Holder may be required to file an annual informational report with the Internal Revenue Service (the "IRS").

### 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 IRS.

For taxable years beginning after March 18, 2010, certain U.S. Holders who are individuals are required to report information relating to stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of preferred shares or ADSs.

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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 J.P. Morgan 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.

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, 2010, our outstanding debt accrued interest at the CDI, TJLP and IPCA totaled R\$3,378 million. On the same date, we had cash and cash equivalents, in the amount of R\$2,376.0 million and R\$31 million in Long-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, 2010 would



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have resulted in a variation of R\$33.7 million in our interest expenses from financial contracts and a variation of R\$23,7 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, 2010, 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 J.P. Morgan, 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.

#### 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:

Depository 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

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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  As necessary, transfer or registration fees, if any, in connection with the deposit or withdrawal of deposited securities
General depositary services	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 depositary's or its custodian's compliance with applicable laws, rules or regulations.

Ongoing Reimbursements by the Depositary

J.P. Morgan, as depositary, 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 fillings with the SEC and other bona fide Program-related third party expenses.

During the year ended December 31, 2010, we received from our depositary U.S. \$679,422 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."

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, 2010. 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

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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, 2010. 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, 2010, our internal control over financial reporting was adequate and effective, based on those criteria.

Our independent registered public accounting firm, Pricewaterhousecoopers Auditores Independentes, has issued an audit report on the effectiveness of our internal controls over financial reporting as of December 31, 2010. The report on the audit of our internal control over financial reporting is included below.

(c) Audit Report of the Registered Public Accounting Firm

Pricewaterhousecoopers Auditores Independentes, the independent registered public accounting firm that has audited our consolidated financial statements, has issued an audit report on the effectiveness of our internal controls over financial reporting as of December 31, 2010. The audit report appears as follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
TIM Participações S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of TIM Participações S.A. and its subsidiaries (the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying

Management's Report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included

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examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers  
Auditores Independentes

Rio de Janeiro, Brazil  
June 27, 2011

(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. 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 declared that three of its members, Messrs. Samuel de Paula Matos, Jorge Michel Lepeltier 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.



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## 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.

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, Pricewaterhousecoopers Auditores Independentes and Ernst Young, during the years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
	(in thousands of reais)	
Audit fees	2,127	7,137
Audit-related fees	281	84
Tax fees	-	-
All other fees	-	-
Total fees	2,408	7,221

Audit fees in the above table are the aggregate fees billed Pricewaterhousecoopers Auditores Independentes 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 Pricewaterhousecoopers Auditores Independentes 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-

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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.

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

Ernst & Young Terco Auditores Independentes ("Ernst & Young ") were appointed as our independent registered public accounting firm in 2001 for a nine years period to cover the audit of our fiscal years up to December 31, 2009. Up to that date, our financial statements were prepared in accordance with Accounting Practices Adopted in Brazil ("BR GAAP") with a reconciliation to Accounting Principles Generally Accepted in the United States of America ("US GAAP"). On February 23, 2010 our Board of Directors, approved the appointment of PricewaterhouseCoopers Auditores Independentes ("PWC") to act as our registered independent public accounting firm beginning with fiscal year 2010. Considering the adoption of International Financial Reporting

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Standards (IFRS) in 2010, Ernst & Young has audited the January 1, 2009 balance sheet as of the IFRS transition date, and PWC has audited the financial statements as of and for the two years ended December 31, 2009 and 2010. As a result of such arrangement, Ernst & Young were dismissed at the end of their nine-year contract period, effective upon the delivery of their report on the January 1, 2009 IFRS transition balance sheet, dated June 27, 2011.

Ernst & Young's report on our balance sheet prepared at the IFRS transition date of January 1, 2009 does not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. There were no adverse reports issued by Ernst & Young in either of the two most recent fiscal years.

During the two fiscal years ended December 31, 2009, there were no disagreements with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or scope of audit procedures, which disagreement, if not resolved to the satisfaction of Ernst & Young, would have caused Ernst & Young to make a reference to the subject matter of the disagreement in connection with its audit reports for such years, as well as, in connection with Ernst & Young audit report over our balance sheet as at January 1, 2009.

We have requested Ernst & Young to furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of this letter is filed as an exhibit to this Form 20-F.

### 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.

#### 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,

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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.

### Shareholder Approval of Equity Compensation Plans

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under the Brazilian Corporate Law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval.

### Corporate Governance Guidelines

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. If we migrate to BM&FBOVESPA's New Market, we will be subject to those rules on corporate governance, which includes a disclosure policy, a policy on publicizing acts or relevant facts, which requires the public disclosure of all relevant information pursuant to guidelines set forth by the CVM, as well as an insider trading policy, a policy on securities transactions, which, among other things, establishes black-out periods and requires insiders to inform management of all transactions involving our securities.

### Code of Business Conduct and Ethics

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement.

## 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

- 1.1 By-laws of TIM Participações S.A., as amended (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, 2011.
- 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 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 our 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 our 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 our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.

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- 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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.
- 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.

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- 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

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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.

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.

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- 2.42 Deposit Agreement, dated as of June 24, 2002, among Tele Celular Sul Participações S.A., J.P. Morgan Chase Bank, as Depository, 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 Telp 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 Telp 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 Telpel 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.

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- 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.
- 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.
- 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 our 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 our 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 35 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), incorporated by reference to our 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.

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- 13.1\* Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.
- 15.1 Letter dated June 29, 2011 of Ernst & Young Terco Auditores Independentes S.S. to the SEC, as required by Item 16F of Form 20-F, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2011.

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\* Filed herewith.

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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 2Mbps 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 Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TIM PARTICIPAÇÕES S.A.

Dated: September 15, 2011

By: /s/ Luca Luciani

Name: Luca Luciani

Title: Chief Executive Officer

Dated: September 15, 2011

By: /s/ Claudio Zezza

Name: Claudio Zezza

Title: Chief Financial Officer

TIM Participações S.A. and  
Subsidiaries

Consolidated Financial Statements in  
December 31, 2010 and 2009  
and Independent Auditors' Report

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
TIM Participações S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of TIM Participações S.A. and its subsidiaries (the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers  
Auditores Independentes

Rio de Janeiro, Brazil  
June 27, 2011

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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 sheet of TIM Participações S.A. and subsidiaries as of January 1, 2009. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the consolidated financial position of TIM Participações S.A. and subsidiaries at January 1, 2009 in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board.

Rio de Janeiro, Brazil, June 27, 2011

ERNST & YOUNG TERCO  
Auditores Independentes S.S.  
CRC – 2SP 015.199/O-6 – F – RJ

/s/ Claudio Camargo  
Claudio Camargo  
Partner

## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands of Reais)

	December 31, 2010	December 31, 2009	January 1, 2009
Assets			
Current assets			
Cash and cash equivalents (Note 5)	2,376,232	2,413,024	1,531,543
Financial investments (Note 6)	18,177	146,145	23,048
Trade accounts receivable (Note 7)	2,748,411	2,443,424	2,635,355
Inventories (Note 8)	228,654	406,434	548,514
Indirect taxes recoverable (Note 9)	494,036	464,615	314,627
Direct taxes recoverable (Note 10)	361,929	440,693	288,726
Prepaid expenses (Note 12)	93,768	24,690	20,960
Derivative transactions (Note 37)	6,122	49,237	260,925
Other assets (Note 14)	98,591	94,390	26,839
	6,425,920	6,482,652	5,650,537
Non-current assets			
Financial investments (Note 6)	13,692	16,567	9,911
Trade accounts receivable (Note 7)	36,812	41,269	-
Indirect taxes recoverable (Note 9)	188,111	180,032	156,139
Direct taxes recoverable (Note 10)	139,366	41,706	70,836
Deferred income and social contribution taxes (Note 11)	1,732,732	297,487	189,565
Court deposits (Note 13)	385,519	227,521	143,924
Prepaid expenses (Note 12)	14,620	9,847	13,693
Derivative transactions (Note 37)	16,746	29,027	126,648
Other assets (Note 14)	17,763	11,863	7,268
Property, plant and equipment (Note 15)	5,863,723	5,593,772	4,753,800
Intangible assets (Note 16)	4,535,848	4,990,712	4,987,575
	12,944,932	11,439,803	10,459,359
Total assets	19,370,852	17,922,455	16,109,896

The accompanying notes are an integral part of the financial statements



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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands of Reais)

	December 31, 2010	December 31, 2009	January 1, 2009
Liabilities and Equity			
Current Liabilities			
Suppliers (Note 17)	3,103,469	3,099,982	3,328,714
Loans and financing (Note 18)	957,549	1,417,363	1,482,705
Derivative transactions (Note 37)	2,071	48,122	52,448
Labor liabilities (Note 19)	125,292	107,863	106,991
Indirect taxes, fees and contributions (Note 20)	544,375	563,852	471,958
Direct taxes, fees and contributions (Note 21)	265,328	162,645	129,821
Dividends and interest on capital payable	511,737	224,652	193,365
Other liabilities (Note 22)	181,268	115,450	113,639
	5,691,089	5,739,929	5,879,641
Non-current liabilities			
Long term liabilities			
Loans and financing (Note 18)	2,277,121	2,742,595	2,066,514
Derivative transactions (Note 37)	164,482	113,200	10,814
Indirect taxes, fees and contributions (Note 20)	57,720	5,157	-
Direct taxes, fees and contributions (Note 21)	138,981	23,984	-
Deferred income and social contribution taxes (Note 11)	83,708	96,154	-
Provision for contingencies (Note 23)	249,057	324,508	253,370
Actuarial liabilities (Note 38)	9,166	7,527	6,425
Asset retirement obligations (Note 24)	255,737	239,635	177,067
Other liabilities (Note 22)	142,982	52,406	20,447
	3,378,954	3,605,166	2,534,637
Equity (Note 25)			
Capital stock	8,149,096	8,149,096	7,613,610
Capital reserves	396,129	396,129	191,886
Profit reserves	1,755,584	158,049	142,516
Accumulated losses	-	(125,914 )	(252,394 )
	10,300,809	8,577,360	7,695,618
Total liabilities and equity	19,370,852	17,922,455	16,109,896

The accompanying notes are an integral part of the financial statements.

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, 2010 and 2009

(in thousands of Reais)

	2010	2009
Net operating revenue (Note 26)	14,457,450	13,158,134
Costs of service provided and goods sold (Note 27)	(7,305,767 )	(6,672,369 )
Gross profit	7,151,683	6,485,765
Operating revenue (expenses):		
Selling expenses(Note 28)	(4,494,608 )	(4,436,751 )
General and administrative expenses (Note 29)	(1,008,694 )	(1,033,438 )
Other revenue (expenses), net (Note 30)	(448,247 )	(462,114 )
	(5,951,549 )	(5,932,303 )
Operating profit before financial income (expense)	1,200,134	553,462
Financial income (expenses):		
Financial income (Note 31)	231,671	137,033
Financial expenses (Note 32)	(380,501 )	(328,908 )
Foreign exchange variations, net (Note 33)	(96,627 )	(53,240 )
	(245,457 )	(245,115 )
Income before income tax and social contribution	954,677	308,347
Income tax and social contribution (Note 34)	1,257,038	33,026
Net income for the year	2,211,715	341,373

The accompanying notes are an integral part of the financial statements

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31, 2010 and 2009

(in thousands of Reais)

	2010	2009
Net income for the year	2,211,715	341,373
Other comprehensive income for the year	-	-
Total comprehensive income for the year	2,211,715	341,373
Attributable to:		
Owners of the parent	2,211,715	341,373

The accompanying notes are an integral part of the financial statements

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2010 and 2009

(in thousands of Reais)

	Capital Stock	Capital reserve Special goodwill reserve	Profit reserves Legal reserve	Reserve for expansion	Accumulated losses	Total
Balances as of January 1st, 2009	7,613,610	191,886	111,554	30,962	(252,394 )	7,695,618
Dividends directly recorded against capital equity (note 25)	-	-	-	4,789	-	4,789
Capital increase with transfer from reserve (note 25)	18,761	(18,761 )	-	-	-	-
Capital increase through acquisition of HOLDCO (note 2b)	516,725	223,004	-	-	-	739,729
Net income for the year	-	-	-	-	341,373	341,373
Allocation of net income for the year						
Legal reserve (note 25)	-	-	10,744	-	(10,744 )	-
Dividends (Note 25)	-	-	-	-	(204,149 )	(204,149 )
Balance as of December 31, 2009	8,149,096	396,129	122,298	35,751	(125,914 )	8,577,360
Dividends directly recorded against capital equity (note 25)	-	-	-	8,345	-	8,345
Net income for the year	-	-	-	-	2,211,715	2,211,716
Allocation of net income for the year:						
Legal reserve (Note 25)	-	-	104,550	-	(104,550 )	-
Dividends (Note 25)	-	-	-	-	(496,611 )	(496,611 )
Reserve for expansion	-	-	-	1,484,640	(1,484,640 )	-
Balance as of December 31, 2010	8,149,096	396,129	226,848	1,528,736	-	10,300,809

The accompanying notes are an integral part of the financial statements

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2010 and 2009

(in thousands of Reais)

	2010	2009
Operating activities		
Income before income tax	954,677	308,347
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,993,461	2,913,966
Deferred income and social contribution taxes	(190,652 )	(74,897 )
Actuarial liabilities	1,639	1,102
Carrying value of disposed fixed assets	27,211	40,603
Asset retirement obligations	15,045	62,567
Provision for contingencies	(72,987 )	(55,404 )
Monetary restatement on asset retirement obligations, court deposits and contingencies	(13,703 )	(8,878 )
Interest and monetary and exchange variation on loans	395,219	340,669
Unrealized interest and monetary variation on financial investments	(145,537 )	(70,203 )
Allowance for doubtful accounts	310,497	422,163
	4,274,870	3,880,035
Decrease (increase) in operating assets		
Trade accounts receivable	(611,028 )	(145,148 )
Taxes and contributions recoverable	(56,395 )	(273,643 )
Inventories	177,780	142,080
Prepaid expenses	(73,851 )	895
Other current and non-current assets	(155,803 )	(92,936 )
Increase (decrease) in operating liabilities		
Labor obligations	17,429	(11,061 )
Suppliers	(1,087,709)	(579,043 )
Taxes, fees and contributions	250,766	115,440
Other short- and long-term liabilities	156,344	(127,555 )
Net cash provided by operating activities	2,892,453	2,909,064
Investment activities		
Financial investments	276,379	(59,457 )
Additions to property, plant and equipment and intangible assets	(1,744,565)	(2,491,907)
Cash proceeds from acquisition of Intelig	-	132,816
Net cash provided by (used in) investment activities	(1,468,186)	(2,418,548)
Financing activities		
New loans	452,843	1,849,808
Repayments of loans	(1,712,721)	(1,290,771)
Dividends and interest on capital paid	(201,181 )	(168,072 )
Net cash provided by (used in) financing activities	(1,461,059)	390,965
Increase (decrease) in cash and cash equivalents	(36,792 )	881,481
Cash and cash equivalents at the beginning of the year	2,413,024	1,531,543
Cash and cash equivalents at the end of the year	2,376,232	2,413,024

The accompanying notes are an integral part of the financial statements.

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

1. Operations

TIM Participações S.A. (“TIM Participações”, the “Company” or collectively with its subsidiaries “the Group”), is a publicly held company, based in the city of Rio de Janeiro, controlled by TIM Brasil Serviços e Participações S.A. (“TIM Brasil”) a Telecom Italia Group company, which holds 77.14% of its voting capital and 66.27% of its total capital.

The Company’s stock is negotiated in the BM&F BOVESPA. In addition, TIM Participações has Level II American Depositary Receipts (“ADRs”) traded on the New York Stock Exchange (“NYSE”). Consequently, the Company is subject to the rules of the Securities and Exchange Commission (“SEC”). In order to meet its market needs, it is the Company's principle to disclose simultaneously the information prepared in accordance with the accounting practices adopted in Brazil in Reais in the two markets, in Portuguese and in English.

The Group's main operations comprise the control of companies operating telecommunication services, especially personal mobile and land line telephone services in its concession areas.

The Company fully owns the capital of TIM Celular S.A. (“TIM Celular”) and Intelig Telecomunicações Ltda. (“Intelig”). TIM Celular and Intelig operate as providers of Switched Fixed Telephone Service (locally STFC) of the following types: Local, Domestic Long Distance and International Long Distance in every Brazilian state. Additionally Tim Celular operates as a provider of Multimedia Communication Service (locally, SCM) and also as provider of Personal Mobile Service (locally SMP) in every Brazilian state. We highlight that Intelig is authorized to render Multimedia Communication Services (SCM).

The services provided by the subsidiaries are regulated by ANATEL - Brazilian Telecommunications Agency - in charge of regulating all Brazilian telecommunications. The authorization for operation of SMP STFC is valid for an indefinite period.

The authorizations for use of radio frequency granted to the Company are valid for a definite period and expire as follows, with possible renewal for 15 years, as the case may be:

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

Terms of authorization	Expiration Date	
	Radio-frequencies 800MHz, 900 MHz and 1,800 MHz	Radio-frequencies 1900 /2100 MHz (3G)
1. Amapá, Roraima, Pará, Amazonas, Maranhão, Rio de Janeiro and Espírito Santo	March, 2016	April, 2023
2. Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás, Rio Grande do Sul (except the municipality of Pelotas and region) and municipalities of Londrina and Tamarana in Paraná	March, 2016	April, 2023
3. São Paulo	March, 2016	April, 2023
4. Paraná (except the municipalities of Londrina and Tamarana)	September, 2022	April, 2023
5. Santa Catarina	September, 2023	April, 2023
6. Municipality and region of Pelotas in the state of Rio Grande do Sul	April, 2024	April, 2023
7. Pernambuco	May, 2024	April, 2023
8. Ceará	November, 2023	April, 2023
9. Paraíba	December, 2023	April, 2023
10. Rio Grande do Norte	December, 2023	April, 2023
11. Alagoas	December, 2023	April, 2023
12. Piauí	March, 2024	April, 2023
13. Minas Gerais (except the municipalities of the “Minas Triangle” for 3G radio frequencies)	April, 2013	April, 2023
14. Bahia and Sergipe	August, 2012	April, 2023

## 2. Basis for preparation of financial statements

## a. Preparation and disclosure criteria

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

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards IFRS as issued by the IASB, and they are the first financial statements presented in accordance with IFRS by the company.

The consolidated financial statements have been prepared under the historical cost convention, and the derivative instruments are measured fair value through profit and loss.



The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

a.1. Presentation of Financial Statements

The financial statements were approved by the Company's Board of Directors on February 21, 2011.

a2. Consolidated Financial Statements

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

These are the first financial statements presented in accordance with the Brazilian Accounting Pronouncements Committee (CPC) standards and IFRS. The main differences between the previous accounting practices adopted in Brazil (old BRGAAP) and CPC/IFRS, including the reconciliations of equity and comprehensive income are described in Note 2d.

Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

a.3 Segment information

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions and analyses the Group as one single segment of mobile telecom which represents more than 90% of Company's operations.

b.First Adoption of IFRS

b.1 Basis of transition to IFRS

b.1.1 Application of CPC 37, CPC 43 and IFRS 1

The Company adopted CPC 37 and 43 and IFRS 1 in the preparation of these financial statements.

The Company prepared its opening balance sheet as of the transition date of January 1, 2009, and the base date of these consolidated financial statements is December 31, 2010.

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In the preparation of the financial statements on the transition date in accordance with IFRS 1, the Company applied the mandatory exceptions and a number of optional exemptions regarding full retrospective application of IFRS.

b.1.2 Exemptions regarding full retrospective application – chosen by the Company

The Company utilized the following optional exemptions regarding full retrospective application in its balance sheet at the transition date.

(a) Assets and liabilities of subsidiaries, affiliates and joint /ventures

The Company utilized the exemption that allows a subsidiary, upon first adoption at a date later than that of its parent company, in its own financial statements prepared in accordance with IFRS, to consider the accounting values that were included in the consolidated financial statements already reported, based on the parent company's date of transition to IFRS.

Thus, since the date of transition to IFRS adopted by our controlling shareholder (Telecom Itália S.p.a.) was January 1, 2005, the assets and liabilities that had already been presented in accordance with IFRS in the consolidated financial statements already reported to the Parent Company, were included in the financial statements as of the date of the Company's transition to IFRS.

(b) Exemption regarding the classification of financial instruments

The Company opted to classify its financial instruments in accordance with IAS 32/CPC 39 and IAS 39/CPC 08 as of the date of transition to IFRS. No analysis was carried out in connection with any date prior to the Company's contracting of any financial instruments in force as of the date of transition to IFRS. All financial instruments contracted after the transition date were analyzed and classified as of the respective contract date in accordance with IFRS.

The remaining optional exemptions do not apply to the Company.

b.1.3 Exception regarding retrospective application adopted by the Company

The Company applied the following mandatory exception in its retrospective application:

Exception for estimates:

According to IFRS, as of January 1, 2009 the estimates are consistent with the estimates made at the same date in accordance with the accounting practices adopted in Brazil.

The other mandatory exceptions provided for in IFRS 1 were observed, analyzed and produced no effects in relation to the accounting practices adopted in Brazil.



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b.2 Comparison between BR GAAP and IFRS

With the application of all the pronouncements issued by the CPC in force for the financial statements as from December 31, 2010, the Company does not present any differences in the financial statements prepared in accordance with the BR GAAP and those prepared in accordance with IFRS, except for the presentation of the parent company financial statements, where the investments in subsidiaries are recorded on the equity method.

c.Impacts of the implementation of the new CPC's and IFRS

The following significant adjustments were identified in connection with the implementation of the new CPC's and IFRS:

c.1) Deferred income and social contribution taxes: The Company recognized the effects of deferred income and social contributions taxes determined upon application of the CPC's adjustments to the Parent Company's financial statements and the adjustments in relation to international standards – IFRS in the consolidated financial statements. The differences that generated deferred taxes resulted from capitalized financial charges reversal (item c.2), adjustment in obligation resulting from the retirement of assets (item c.3) and deferred charges reversal (item c.5).

c.2) Capitalized financial charges: The financial charges related to certain loan and financing contracts in connection with investment activities were capitalized based on the average values of construction work in progress, as provided for in CVM Resolution No. 193 (revoked by CVM Resolution No. 577) and Official Letter CVM/SNC/SEP 01/207. The capitalized financial charges were depreciated taking into account the same criteria and useful life established for the property, plant and equipment items to which they were incorporated. For the purpose of the initial adoption of IFRS, the Company opted to apply the exemption allowed under IFRS 1 as described in item b.1.2.(a), and reversed the capitalized financial charges.

Additionally, under the old BRGAAP, the subsidiary TIM Celular capitalized expenses related to interest and foreign exchange differences on the financing of its concessions between 1999 and 2000. For the purpose of the initial adoption of IFRS, the Company opted to apply the exemption allowed under IFRS 1 as described in item b.1.2.(a), and reversed the capitalized financial charges.

c.3) Asset retirement obligations: The Company recognizes as an asset retirement obligation the present value of the estimated costs to be incurred upon the disassembly and removal of cell phone towers and equipment at leased sites. The contra-entry for this provision is recognized under property, plant and equipment and the depreciation is calculated based on the useful lives of the corresponding assets. Until December 31, 2008 the Company followed Statement of Financial Accounting Standards (SFAS) 143 "Accounting for Asset Retirement Obligations" issued by the Financial Accounting Standards Board (FASB), under which future obligation on account of the disassembly and removal of cell phone towers should be stated as a provision at present value, taking into account the historical discount rates on the dates when the provision was recorded. With the adoption of ICPC 12 – Changes in Liabilities through Decommissioning, Restoration and Other Similar Liabilities (IFRIC 1), the provision for the disassembly and removal of cell phone towers should reflect the effects of changes in the discount rates prevailing from one period to the next. Therefore, the Company made the adjustment at the transition date.

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(In thousands of Reais, unless otherwise stated)

c.4) Business combination:

Acquisition of HOLDCO/Intelig: On April 16, 2009, at a meeting of the Board of Directors, the Company entered into a Merger Agreement with its controlling shareholder, TIM Brasil and JVCO Participações Ltda. (“JVCO”), with Docas Investimentos S.A. as intervening party, in order to acquire the indirect control of Intelig. This acquisition would occur through the merger into the Company of HOLDCO Participações Ltda. (“HOLDCO”), a company controlled by JVCO, and which in turn, would control, following the conclusion of the merger, 100% of the share capital of Intelig.

ANATEL, by means of Act No. 4634, of August 11, 2009, published in the Federal Official Gazette (DOU) on August 14, 2009, gave its approval to this transaction hereby presented, and also granted a period of 18 months for the elimination of the geographical overlapping of Switched Fixed Telephone Service (STFC) concessions held by TIM Celular and Intelig, in light of the connection between the two as a result of the aforementioned merger.

At December 30, 2009, during the Special Shareholders Meeting, the shareholders of TIM Participações approved the merger of HOLDCO, an entity that held 100% of the share capital of Intelig, into TIM Participações. As a result of this transaction, the Company issued 127,288,023 shares (43,356,672 common shares and 83,931,352 preferred shares) in the name to JVCO.

Thus, TIM Participações became the controlling shareholder of Intelig, a company which held specific authorizations to render private fixed communication services with operations in the whole country, operating predominantly in the market for local, long distance and international calls and data transmission.

In accordance with the old BRGAAP, the acquisition was recorded at the net book value of the assets acquired as of the base date November 30, 2009; however, for the implementation of the new accounting rules (CPC 15 –Business Combination and IFRS3 R), the acquisition was recorded as of December 31, 2009 (acquisition date), considering: a) the fair value of the acquisition cost was established based on the valuation of common and preferred shares of TIM Participações, taking into account the market (trade) value of the shares on December 30, 2009, totaling R\$739,729; and b) the identifiable assets purchased, the contingencies and the liabilities assumed in the business combination were measured at their fair value on the date of acquisition.



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

<b>Assets</b>	
Cash and cash equivalents	132,816
Accounts receivable	126,353
Taxes recoverable	23,074
Court deposits	33,453
Property, plant and equipment	780,845
Intangible assets	135,850
Other assets	25,114
<b>Total identifiable assets purchased</b>	<b>1,257,505</b>
<b>Liabilities</b>	
	(342,431 )
Loans	(118,402 )
Contingencies	(140,107 )
Long-term taxes and contributions	(101,311 )
Other liabilities	(25,540 )
<b>Total liabilities assumed</b>	<b>(727,791 )</b>
<b>Net identifiable assets acquired</b>	<b>529,714</b>

As result of the adjustment to fair value of the identified assets acquired and liabilities assumed from Intelig upon the acquisition of the company, the fair value of the net assets purchased totaled R\$529,714. Thus, we concluded that the amount of R\$ 739,729, paid upon the acquisition of Intelig on December 30, 2009, exceeded the fair value of the net assets by R\$210,015. Said surplus amount was recorded as goodwill and is based on expectations of future profitability of Intelig, supported by the projections prepared by the Company together with investment banks.

If such transaction had occurred as of January 1, 2009, the net revenue and net income for the period ended December 31, 2009, considering the combination of TIM Participações and its subsidiaries with Intelig, would have been R\$ 13,747,028 and R\$ 801,223, respectively.

c.5) Deferred Assets: As permitted by Law No. 11638/07, the Company maintained, in deferred assets, pre-operational expenses recorded up to December 31, and amortized them over their remaining useful life. For the purpose of restating the financial statements and initial adoption of IFRS, the Company opted to apply the exemption allowed under IFRS 1, as described in item b.1.2.(a), and reversed its pre-operating expenses at the transition date.

c.6) Equity Pick -up (parent company): This relates to equity adjustments due to the effects of the application of the CPCs adjustments by the subsidiaries.

c.7) Reclassifications: as a result of the application of the CPCs and adjustments to best accounting practices observed in the market and used by our controlling shareholders, the Company and its subsidiaries made a number of

reclassifications in the statement of income, as described below:

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(In thousands of Reais, unless otherwise stated)

c.7.1 Deferred income and social contribution taxes: reclassified from “Current Assets” to “Non-Current Assets” and when applicable are presented on a net basis;

c.7.2 Direct taxes and contributions recoverable: reclassified from “Taxes and contributions recoverable” to “Direct taxes and contributions recoverable”;

c.7.3 Direct taxes and contributions payable: reclassified from “Taxes and contributions payable” to “Direct taxes and contributions payable”;

c.7.4 Subsidies on the sale of handsets: reclassified from “Prepaid expenses” to “Intangible assets”.

c.7.5 Contributions to Fust/Funttel: reclassified from “Deductions from gross revenue” to “Other operating expenses”;

c.7.6 Revenues from the sale of SIM cards: reclassified from “Sale of goods” to “Other telecommunications revenues”;

c.7.7 Amortization of subsidies on the sale of handsets: reclassified from “Cost of goods sold” to “Amortization of intangible assets”;

c.7.8 Provision for labor contingencies: reclassified from “Other operating expenses” to “Personnel expenses” under “General and Administrative Expenses”;

c.7.9 Reversal of provision for labor contingencies: reclassified from “Other operating expenses” to “Personnel Expenses” under “General and administrative expenses”;

c.8 Acquisition of non-controlling interest:

Acquisition of shares from non-controlling shareholders of the former Telesc and CTMR (merged into the former TIM Sul, which in turn in 2006 was merged into TIM Celular): In accordance with the old BRGAAP, goodwill was booked upon the acquisition of shares at amounts greater than book value. With the adoption of CPC 15 – Business Combination / IFRS3R, the effect of the acquisition of shares from non-controlling shareholders that occurred in 2002 was recorded in equity (before IFRS transition date) and consequently the balance of the goodwill remaining as of December 31, 2008 in the amount of R\$3,547 was eliminated at the transition date, applying the exemption allowed under IFRS 1 as described in item b.1.2(a).

Acquisition of shares in TIM Sul and TIM Nordeste with shares issued by TIM Participações : In 2005, the Company acquired 100% of the shares held by non- controlling shareholders in TIM Sul and TIM Nordeste Telecomunicações with shares issued by TIM Participações S.A., converting the aforementioned companies into wholly owned subsidiaries. At the time this transaction was recorded in the financial statements at the book value of these shares, with no goodwill recognized for the difference in the market value of the shares acquired. For the purpose of the initial adoption of IFRS, the Company opted to apply the exemption allowed under IFRS 1 as described in item b.1.2.(a), and recorded the



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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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d. In the charts below, the Company presents the amounts corresponding to the impacts generated in the Parent Company and Consolidated Balance Sheets as of January 1, 2009 (transition date) and December 31, 2009 (comparison period), and in the Parent Company's and Consolidated Statements of Income for the year ended December 31, 2009. The chart also presents the reconciliation of equity (parent company and consolidated) and net income for these periods (parent company and consolidated). This accounting information is being restated to reflect the application of the aforementioned adjustments and reclassifications.

## d2. Reconciliation of equity – consolidated

	Note	12/31/09	1/1/09
Equity as published		8,282,093	7,790,456
Business combination – Intelig acquisition	2c.4	280,327	-
Acquisition of non-controlling interest	2c.8	157,556	157,556
Capitalized finance charges	2c.2	(110,982 )	(148,037 )
Deferred charges	2c.5	(110,979 )	(149,029 )
Asset retirement obligations	2c.3	14,999	18,868
Deferred income and social contribution taxes	2c.1	67,893	29,351
Others	2c.8	(3,547 )	(3,547 )
Adjusted equity		8,577,360	7,695,618

## d4. Reconciliation of net income for the period – consolidated

	Note	31/12/09
Net income as published		214,893
Capitalized finance charges	2c.2	37,055
Asset retirement obligations	2c.3	(3,869 )
Deferred charges	2c.5	38,050
Net income of Intelig for December 2009	2c.4	16,702
Deferred income and social contribution taxes	2c.1	38,542
Adjusted net income		341,373

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of Reais, unless otherwise stated)

## d.5 Reconciliation of the Company's Consolidated Balance Sheet as of January 1, 2009 - Transition date:

	Note	Note on adjustments	Balance Sheet as of 1/1/09 – adjustments	Adjustments/ reclassifications pursuant to CPC's/IFRS	Balance Sheet as of 1/1/09 – after adjustments
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5		1,531,543	-	1,531,543
Financial investments	6		23,048	-	23,048
Trade accounts receivable	7		2,635,355	-	2,635,355
Inventories	8		548,514	-	548,514
Indirect taxes recoverable	9	2c.7.2	603,353	(288,726 )	314,627
Direct taxes recoverable	10	2c.7.2	-	288,726	288,726
Deferred income and social contribution taxes	11	2c.7.1	49,451	(49,451 )	-
Prepaid expenses	12	2c.7.4	155,825	(134,865 )	20,960
Derivative transactions	37		260,925	-	260,925
Other assets	14		26,839	-	26,839
			5,834,853	(184,316 )	5,650,537
<b>Non-current assets</b>					
Financial investments	6		9,911	-	9,911
Indirect taxes recoverable	9	2c.7.2	226,975	(70,836 )	156,139
Direct taxes recoverable	10	2c.7.2	-	70,836	70,836
Deferred income and social contribution taxes	11	2c.1, 7.1	110,763	78,802	189,565
Court deposits	13		143,924	-	143,924
Prepaid expenses	12		13,693	-	13,693
Derivative transactions	37		126,648	-	126,648
Other assets	14		7,268	-	7,268
Property, plant and equipment	15	2c.2,3	4,799,094	(45,294 )	4,753,800
Intangible assets	16	2c.2, 4, 7.4	4,817,312	170,263	4,987,575
Deferred charges		2c.5	149,029	(149,029 )	-
			10,404,617	54,742	10,459,359
<b>Total assets</b>			<b>16,239,470</b>	<b>(129,574 )</b>	<b>16,109,896</b>



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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

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	Note	Note on adjustments	Balance Sheet as of 1/1/09 – before adjustments	Adjustments/ reclassifications pursuant to CPC's/IFRS	Balance Sheet as of 1/1/09 – after adjustments
<b>Liabilities and Equity</b>					
<b>Current</b>					
Suppliers	17		3,328,714	-	3,328,714
Loans and financing	18		1,482,705	-	1,482,705
Derivative transactions	37		52,448	-	52,448
Labor liabilities	19		106,991	-	106,991
Indirect taxes, fees and contributions	20	2c.7.3	601,779	(129,821 )	471,958
Direct taxes, fees and contributions	21	2c.7.3	-	129,821	129,821
Dividends and interest on capital payable			193,365	-	193,365
Other liabilities	22		113,639	-	113,639
			5,879,641	-	5,879,641
<b>Non-current liabilities</b>					
Loans and financing	18		2,066,514	-	2,066,514
Derivative transactions	37		10,814	-	10,814
Provision for contingencies	23		253,370	-	253,370
Actuarial liabilities	38		6,425	-	6,425
Asset retirement obligations	24	2c.3	211,803	(34,736 )	177,067
Other liabilities	22		20,447	-	20,447
			2,569,373	(34,736 )	2,534,637
<b>Equity</b>					
Equity	25				
Capital stock			7,613,610	-	7,613,610
Capital reserves			34,330	157,556	191,886
Profit reserves			142,516	-	142,516
Accumulated losses			-	(252,394 )	(252,394 )
			7,790,456	(94,838 )	7,695,618
<b>Total liabilities and equity</b>			<b>16,239,470</b>	<b>(129,574 )</b>	<b>16,109,896</b>



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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## d.7 Reconciliation of the Company's Consolidated Balance Sheet as of December 31, 2009

	Note	Note on adjustments	Balance Sheet as of 12/31/09 – before adjustments	Adjustments/ reclassifications pursuant to CPC's/IFRS	Balance Sheet as of 12/31/09 – after adjustments
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5		2,413,024	-	2,413,024
Financial investments	6		146,145	-	146,145
Accounts receivable	7		2,443,424	-	2,443,424
Inventories	8		406,434	-	406,434
Indirect taxes and contributions recoverable	9	2c.7.2	905,308	(440,693 )	464,615
Direct taxes and contributions recoverable	10	2c.7.2	-	440,693	440,693
Deferred income and social contribution taxes	11	2c.7.1	32,709	(32,709 )	-
Prepaid expenses	12	2c.7.4	238,270	(213,580 )	24,690
Derivative transactions	37		49,237	-	49,237
Other assets	14		94,390	-	94,390
			6,728,941	(246,289 )	6,482,652
<b>Non-current assets</b>					
Financial investments	6		16,567	-	16,567
Accounts receivable	7		41,269	-	41,269
Indirect taxes and contributions recoverable	9		221,738	(41,706 )	180,032
Direct taxes and contributions recoverable	10	2c.7.2	-	41,706	41,706
Deferred income and social contribution taxes	11	2c.7.2	196,886	100,601	297,487
Judicial deposits	13	2c.1, 7.1	227,521	-	227,521
Prepaid expenses	12		9,847	-	9,847
Derivative transactions	37		29,027	-	29,027
Other assets	14		11,863	-	11,863
Property, plant and equipment	15	2c.2, 3 2c.2, 4, 7.4	5,323,174	270,598	5,593,772
Intangible assets	16	2c.5	4,494,342	496,370	4,990,712

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Deferred charges	110,979	(110,979 )	-
	10,683,213	756,590	11,439,803
Total assets	17,412,154	510,301	17,922,455

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Note	Note on adjustments	Balance Sheet as of 12/31/09 – before adjustments	Adjustments/ reclassifications pursuant to CPC's/IFRS	Balance Sheet as of 12/31/09 – after adjustments
<b>Liabilities and Equity</b>					
<b>Current liabilities</b>					
Suppliers	17		3,099,982	-	3,099,982
Loans and financing	18		1,417,363	-	1,417,363
Derivative transactions	37		48,122	-	48,122
Labor obligations	19		107,863	-	107,863
Indirect taxes and contributions	20	2c.7.3	726,497	(162,645 )	563,852
Direct taxes and contributions payable	21	2c.7.3	-	162,645	162,645
Dividends payable			224,652	-	224,652
Other obligations	22		115,450	-	115,450
			5,739,929		5,739,929
<b>Non-current liabilities</b>					
Loans and financing	18		2,742,595	-	2,742,595
Derivative transactions	37		113,200	-	113,200
Provision for contingencies	23		208,167	116,341	324,508
Indirect taxes and contributions recoverable	20	2c.7.3	29,141	(23,984 )	5,157
Direct taxes and contributions recoverable	21	2c.7.3	-	23,984	23,984
Deferred income and social contribution tax	11			96,154	96,154
Actuarial liabilities	38		7,527	-	7,527
Asset retirement obligations	24	2c.3	237,096	2,539	239,635
Other obligations	22		52,406	-	52,406
			3,390,132	215,034	3,605,166
<b>Equity</b>					
Capital stock	25		8,149,096	-	8,149,096
Capital reserves			15,569	380,560	396,129
Profit reserves			158,049	-	158,049
Accumulated losses			(40,621 )	(85,293 )	(125,914 )
			8,282,093	295,267	8,577,360
<b>Total liabilities and equity</b>			<b>17,412,154</b>	<b>510,301</b>	<b>17,922,455</b>



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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## d.9 Reconciliation of the consolidated statement of income for the year ended December 31, 2009

	Note	Note on adjustments	Statement of income in 12/31/09 Published	Adjustments/ reclassifications pursuant to CPC's/IFRS	Statement of income in 12/31/09 restated
Net operating revenue	26		13,105,935	52,199	13,158,134
Cost of services provided and goods sold	27	2c.2, 3 e 5	(6,723,182 )	50,813	(6,672,369 )
Gross profit			6,382,753	103,012	6,485,765
Operating revenues (expenses)					
Selling	28		(4,450,079 )	13,328	(4,436,751 )
General and administrative	29	2c.7.8 e 9	(1,070,536 )	37,098	(1,033,438 )
Other operating expenses	30	2c.7.8	(385,113 )	(77,001 )	(462,114 )
			(5,905,728 )	(26,575 )	(5,932,303 )
Operating income			477,025	76,437	553,462
Financial income (expenses):				-	-
Financial revenue	31		834,126	(298 )	833,828
Financial expense	32	2c.2 e 3	(1,090,742 )	11,799	(1,078,943 )
			(256,616 )	11,501	(245,115 )
				-	-
Income before income tax and social contribution			220,409	87,938	308,347
				-	-
Income tax and social contribution	34	2c.2	(5,516 )	38,542	33,026
				-	-
Net income for the period			214,893	126,480	341,373
Other comprehensive income					
Total comprehensive income			214,893	126,480	341,373
Attributable to:					
Owners of the parent			214,893	126,480	341,373



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3. Summary of the main accounting practices

The accounting practices presented below are equally applicable to the financial statements of the parent company (BRGAAP) and the consolidated statements (BRGAAP/IFRS).

a. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

b. Financial investments

Financial investments maturing within more than three months from balance sheet date are recorded at fair value, as current and non-current assets, on the balance sheet date.

c. Financial Assets and liabilities

c.1. Financial assets

c.1.1 Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading. Assets in this category are classified as current assets. The Company does not use hedge accounting.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables'.

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C.1.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within ‘other (losses)/gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the group’s right to receive payments is established.

The fair values of publicly investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

c.1.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

c.1.4 Impairment of financial assets

(a) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;



- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the group would not otherwise consider;

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- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- (i) adverse changes in the payment status of borrowers in the portfolio;
- (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

c.2. Financial liabilities

Financial liabilities: the main financial liabilities recognized by the Company and its subsidiaries are: trade payables, fair value derivatives and loans and financing. They are classified under the following categories, according to the nature of the contracted financial instruments:

- (i) Financial liabilities measured at fair value through income: these are financial liabilities usually traded before maturity, liabilities designated on initial recognition as to be measured at fair value and derivatives. At each balance sheet date they are measured at their fair value. The interest rate, monetary restatement, exchange variation and variations arising valuation at fair value, where applicable, are recognized in income as incurred as financial revenues and expenses. In this category there are basically the derivative financial instruments;
- (ii) Financial liabilities not measured at fair value: these are non-derivative financial liabilities not usually traded before maturity. Upon initial recognition they are measured at the amortized cost, according to the effective interest rate method. The interest rate, monetary restatement, exchange variation and variations arising from valuation at fair value, where applicable, are recognized to income as incurred as financial revenues and expenses.



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d. Accounts receivable

Accounts receivable from telecommunications service customers are calculated at the rate in effect on the date of service rendering. Accounts receivable also include unbilled services, receivables from network use (interconnection) and receivables from sales of handsets and accessories.

e. Inventories

Inventories are stated at the lower of the average acquisition cost and net realizable value.

f. Prepaid expenses

Prepaid expenses are shown at the amount actually disbursed and not yet incurred. They are allocated to income as incurred.

g. Property, plant and equipment

Property, plant and equipment are shown at acquisition and/or construction cost, net of accumulated depreciation and impairment, when applicable. The depreciation is calculated by the straight-line method considering the useful life of the assets involved and their residual value. The Company records its assets by components.

The estimated costs to be incurred on disassembly of towers and equipment at leased sites are capitalized and depreciated over the useful lives of these assets. The Company records provisions for asset retirement obligations based on the present value of estimated costs to be incurred on disassembly of towers and equipment on leased sites. The counterpart of this provision is recognized as property, plant and equipment, and depreciation is calculated based on the useful lives of the corresponding assets. The interest recognized on this unwinding of the present value calculation is booked as financial expenses. The recording of this provision is in accordance with ICPC 12 – Changes in liabilities due to retirement, restoration and other similar liabilities (equivalent to IFRIC 1).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within ‘Other (losses)/gains – net’ in the income statement.

h. Intangible assets

The intangible assets are measured at historical cost less accumulated amortization and impairment, when applicable, and reflect: (i) the purchase of authorizations and radio frequency band licensing; (ii) software in use and/or under development, and (iii) subsidies on the sale of phone sets and mini modems. They also include goodwill.

The amortization expenses are calculated on the straight-line method over the useful life of assets, as follows: five years for software and fifteen years for authorizations and radio frequency bands.

The estimated useful lives of intangible assets are regularly reviewed in order to reflect technological changes.



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Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the assets and liabilities of the acquired subsidiary. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. If an acquisition results in negative goodwill, it is recorded as a gain in the income statement at the date of the acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, segregated by operating segment.

Software

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
  - management intends to complete the software product and use or sell it;
  - there is an ability to use or sell the software product;
  - it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives.



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Subsidies on the sale of handsets and mini-modems

The Company offers subsidies on the sale of handsets and mini-modems for post-paid clients, as formalized by the proper contracts. The funds disbursed are recorded as intangible assets, in accordance with IAS 38/CPC 04.

Subsidies on the sale of handsets and mini-modems to post-paid subscribers are amortized using the straight-line method over the minimum period of the service agreement entered into by clients (12 months). The exit penalties for clients who cancel their subscriptions or migrate to a pre-paid system prior to the end of the contract are invariably greater than the subsidy granted on the sales of handsets and mini-modems.

i. Long lived assets impairment

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested at least annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

j. Suppliers

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In practice, they are usually recognized at the amount of the related invoice.

k. Loans and financing

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.





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l. Provisions

These are recognized in the balance sheet when the Company has a legal obligation or one arising from past events, the settlement of which may probably require disbursement of economic resources. Some liabilities involve uncertainties concerning term and value, and are estimated as incurred and recorded by means of a provision. The provisions are recorded based on the best estimates of the related risks.

m. Income and social contribution taxes – current and deferred

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement. There are no income tax and social contribution charged to comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not recorded for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pursuant to Constitutive Reports 0144/2003 and 0232/2003 issued by ADENE (Agency for Development of the Northeast) on March 31, 2003, TIM Celular became a beneficiary of a fiscal incentive consisting of: (i) 75% reduction of income tax and non-reimbursable additional taxes, for a 10-year period from 2002 through 2011, calculated based on the income from operation of its installed capacity for digital mobile cell telephone services; and (ii) 37.5%, 25% and 12.5% reduction of income tax and non-reimbursable additional taxes for the fiscal years 2003, 2004-2008 and

2009-2013, respectively, calculated based on the income from operation of its installed capacity for analogical mobile cell telephone services.

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n. Provision for contingencies

This provision is set up based on the opinion of the Company's internal and external lawyers and management, in an amount deemed sufficient to cover probable losses and risks. Possible losses and risks are disclosed, while remote losses are not.

o. Revenue recognition

Revenues from mobile services basically comprise monthly subscriptions, use of minutes, roaming charges and long distance calls and are recognized to the extent that it is probable that economic benefits will flow to the Company and their amount can be measured reliably.

Revenues from services rendered

Revenues from cell telephone services is recognized based on the minutes of use, net of credits and adjustments related to discounts granted on services. Such revenues are recognized only when the service can be measured in a reliable manner. Billing are recognized monthly, and the unbilled revenues between the date of the billing and the end of the month are identified, processed and recognized in the month in which the services were rendered.

Revenues from interconnection traffic and roaming are reported gross of the amounts due to other telecommunication operators. Revenues from services in the pre-paid system are recognized when the services are rendered to clients, based on minutes used. Minutes not used related to pre-paid system are recorded as deferred revenues and appropriated to income when the service is used.

Revenues from sales of goods

Revenues from sales of goods (telephones, mini-modens and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer. A portion of such revenues is related to contracts with a minimum contractual period of 12 months and includes an enforced termination penalty. For these contracts, the subsidized acquisition cost of handsets is capitalized as "Intangible assets".

p. Pension plans and other post-employment benefits

The Company and its subsidiaries have defined benefit plans. Typically defined benefit plans establish an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension

liability.

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Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, which exceed 10% of the plan assets or 10% of the plan liabilities, are charged or credited to profit or loss for the expected remaining period of employee services.

Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

q. Transactions in foreign currency

Transactions in foreign currency are recognized at the exchange rate in force on the date of the transaction. Monetary assets and liabilities in foreign currency are converted into Reais at the exchange rate in force on the date of the balance sheet, as disclosed by the Central Bank of Brasil. Realized and unrealized exchange gains or losses are recognized in the income statement when they occur.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'financial income or expense'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

r. Employees profit-sharing

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

s. Dividends

A dividend distribution to the company's shareholders is recognized as a liability in the group's financial statements at year-end based on the company's By-laws. Any amount that exceeds the minimum required is only provided on the date when it is approved by the shareholders at the general meeting.

t. New pronouncements, changes and IFRS interpretations

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after January 1, 2011 or later periods but the group has not early adopted them.

.IFRS 9, "Financial instruments", issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.



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.IAS 24 (revised), 'Related party disclosures', issued in November 2009, which supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from January 1, 2011. When the revised standard is applied, the group and the parent company will need to disclose any transactions between its subsidiaries and its associates. The group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

.IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the revised standard from January 1, 2011. It is not expected to have any impact on the group or the parent company's financial statements.

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Critical accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Long lived assets – impairment evaluation

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable value, which is the higher of the fair value less selling costs or the value-in-use. The calculation of the fair value less selling costs is based on available information on transactions involving the sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of the value-in-use is based on the discounted cash flow model. Cash flows are based on the budget for the next ten years and do not include reorganization activities with which the Company has not yet committed or significant future investments that may improve the assets comprising the cash-generating unit being tested. The recoverable value depends on the discount rate used in the discounted cash flow method, as well as on expected cash receipts and the growth rate used for extrapolation purposes.





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(b)Income tax and social contribution

Current and deferred income tax and social contribution are calculated based on prudent interpretations of applicable legislation. This process usually involves complex estimates to determine taxable income and deductible or taxable temporary differences. In particular, deferred income tax and social contribution asset on tax losses and temporary differences are recognized to the extent that the availability of the related future taxable profits is probable. Measuring the recoverability of deferred income tax and social contribution on tax losses and temporary differences takes into consideration estimated future taxable income, and is based on conservative tax assumptions.

(c)Allowance for doubtful accounts

The allowance for doubtful accounts is presented as a reduction in accounts receivable, and is based on the subscriber portfolio profile, aging of past due bills, economic environment and risks involved in each case, at an amount considered sufficient to face any losses on the realization of such credits.

(d)Provision for contingencies

Contingencies are analyzed by management together with its legal advisors. In its analyses the Company considers factors such as the hierarchy of laws, existing case law, recent decisions by courts and their relevance in the Brazilian legal system. These analyses involve management judgments.

(e)Fair value of financial assets and liabilities

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The Company adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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5	Cash and Cash equivalents			
		12.31.10	12.31.09	01.01.09
	Cash at banks and on hand	104,024	350,225	272,918
	Financial investments:			
	CDB	2,272,208	2,062,799	1,258,625
		2,376,232	2,413,024	1,531,543

Bank Deposit Certificates (CDB) are nominative securities issued by banks and sold to the public as a mean of fundraising and can be negotiated at any time during the contract period.

6	Financial investments			
		12.31.10	12.31.09	01.01.09
	CDB	31,561	162,292	32,650
	Federal Public Securities	308	340	309
	Investment fund units	-	80	-
		31,869	162,712	32,959
	Current portion	(18,177 )	(146,145 )	(23,048 )
	Long-term portion	13,692	16,567	9,911

The average return on the Company's investments is 100.73% of the Interbank Deposit Certificate (CDI) rate.

These investments are redeemable at any time, with no significant loss of recorded earnings, except for those classified as long-term, which are pledged as guarantee in legal proceedings.

7	Trade accounts receivable			
		12.31.10	12.31.09	01.01.09
	Billed services	887,138	948,066	831,762
	Unbilled services	624,962	560,080	560,513
	Network use	596,166	915,393	867,426
	Sale of goods	935,105	738,821	708,176
	Other accounts receivable	110,895	39,513	29,581
		3,154,266	3,201,873	2,997,458
	Allowance for doubtful accounts	(369,043 )	(408,606 )	(362,103 )
		2,785,222	2,484,693	2,635,355

Current portion	(2,748,411)	(2,443,424)	(2,635,355)
Long-term portion	36,812	41,269	-

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Variation in the allowance for doubtful accounts is as follows:

	12.31.10	12.31.09	01.01.09
Initial balance	408,606	362,103	455,939
Balance of company acquired	-	106,284	-
Allowance recorded	310,497	422,163	748,833
Write-Offs	(350,060)	(481,944)	(842,669)
Final Balance	369,043	408,606	362,103

The fair value of accounts receivable is presented as follows:

	12.31.10	12.31.09	01.01.09
Telecommunication services	3,043,371	2,853,786	2,967,877
Other accounts receivable	110,895	39,513	29,581
	3,154,266	2,893,299	2,997,458

The aging of accounts receivable is presented as follows:

	12.31.10	12.31.09	01.01.09
Current	2,237,40	1,968,323	2,003,372
Overdue 0-30 days	160,621	86,584	19,128
Overdue 30-60 days	58,678	18,371	2,507
Overdue 60-90 days	343,810	332,053	395,309
Overdue more than 90 days	353,755	487,968	577,142
	3,154,266	2,893,299	2,997,458

8

## Inventories

	12.31.10	12.31.09	01.01.09
Cell phone sets	205,381	370,426	517,436
Accessories and pre-paid cards	12,887	23,347	24,393
TIM "chips"	21,516	21,875	27,859
	239,784	415,648	569,688
Provision for adjustment to realizable value	(11,130 )	(9,214 )	(21,174 )
	228,654	406,434	548,514

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9	Indirect taxes and contributions recoverable			
		12.31.10	12.31.09	01.01.09
	ICMS	679,350	642,272	470,766
	Other	2,797	2,375	-
		682,147	644,647	470,766
	Current portion	(494,036 )	(464,615 )	(314,627 )
	Long-term portion	188,111	180,032	156,139

The long-term portion basically refers to ICMS (VAT) on the subsidiaries' acquisition of property, plant and equipment items.

10	Direct taxes and contributions recoverable			
		12.31.10	12.31.09	01.01.09
	Income tax	262,647	170,736	100,590
	Social contribution tax			
	PIS and COFINS taxes	211,255	292,876	223,886
	Other	27,393	18,787	35,086
		501,295	482,399	359,562
	Current portion	(361,929 )	(440,693 )	(288,726 )
	Non-Current Portion	139,366	41,706	70,836

The Company and TIM Celular have filed suits to challenge the constitutionality of Law No. 9.718/98 regarding the expansion of the basis for calculation of the PIS and COFINS taxes, and prevent collection of PIS and COFINS on revenues other 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 management, the chance of a favorable ruling to the Companies is probable. The amounts involved are R\$19,039 and R\$44,302, respectively monetarily restated.

## 11 Deferred income and social contribution taxes

Deferred taxes are calculated on income tax and social contribution losses and the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The currently defined tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset temporary differences and/or tax losses, considering projections of future results based on internal assumptions and future economic scenarios, which may, therefore, suffer changes.

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The offsetting amounts are as follows:

	12.31.10	12.31.09	01.01.09
Income tax losses	1,669,112	1,719,136	1,649,882
Social contribution losses	600,852	619,081	593,924
Temporary Differences			
Allowance for doubtful accounts	126,003	139,501	123,115
Derivative transactions	48,853	28,240	(110,266 )
Provision for contingencies	84,679	110,333	86,146
Accelerated depreciation of TDMA equipment	11,419	17,522	30,921
Adjustment to present value - 3G license	24,660	26,602	29,130
Deferred income tax on CPC adjustments (note 3)	193,674	215,870	148,262
FISTEL court deposit	19,069		-
Income and social contribution taxes on the fair value of property, plant and equipment acquired in business combination (note 2.c4)	(83,708 )	(96,154 )	-
Other	18,431	(8,478 )	33,839
	2,713,044	2,771,653	2,584,953
Valuation allowance	(1,064,020)	(2,570,320)	(2,395,388)
	1,649,024	201,333	189,565
Portion of Deferred Tax Assets	1,732,732	297,487	189,565
Portion of Deferred Tax Liabilities	(83,708 )	(96,154 )	-

## TIM CELULAR

The subsidiary TIM Celular, based on the expectation of generating future taxable income, supported by a technical study approved by management and reviewed by the Fiscal Council, recognized in 2010 the totality of its deferred tax assets deriving from tax losses, social contribution losses and temporary differences, which have no expiration period. Similarly to 2009, the Company evaluated the recognition of such tax credits based on the likelihood of recoverability, and recorded a deferred tax asset for the portion considered probable of being recovered. For the year ended December 31, 2010, the following main aspects supported the Company's evaluation:

- A significant reduction in the uncertainties in the macro-economic environment;
- Substantial improvements in the Company's financial and operational indicators, which result from the actions taken by the Company during the year, such as reformulation of the Company's product and service portfolio and a differentiated price and handset subsidy strategy;
- Results of the Company's mergers (TIM Nordeste and Intelig), which generated an improvement in the operational and tax efficiency;

Those factors, together with the robust results presented by the Company in 2010 and the revision of the projections, led to a scenario of reduced uncertainties about the recognition of the corresponding deferred tax assets.

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Based on the technical study of generation of future taxable profits, TIM Celular estimates that these deferred tax assets will be recovered in the following years:

2011	399,796
2012	274,580
2013	277,114
2014	252,119
2015	244,312
2016 forward	284,811
	1,732,732

The estimates of recovery of tax credits were based on the estimates of taxable profits, taking into account several financial and business assumptions considered at the conclusion of 2010. Consequently, these estimates may not be realized in the future, due to the inherent uncertainties in our forecasts.

## INTELLIG

Based on future taxable income projections and considering the history of tax losses, the subsidiary Intelig concluded that significant uncertainties exist in relation to the recoverability of tax losses, and accordingly it did not recognize the deferred tax assets. The amounts of such potential deferred tax assets are R\$923,907 as of December 31, 2010, R\$882,016 as of December 31, 2009 and R\$871,080 as of January 1, 2009.

12	Prepaid expenses		
	12.31.10	12.31.09	01.01.09
Rentals and Insurance	26,930	17,220	14,069
Advertising not released	80,293	9,540	1,907
Other	1,165	7,777	18,677
	108,388	34,537	34,653
Current portion	(93,768 )	(24,690 )	(20,960 )
Long-term portion	14,620	9,847	13,693

13	Court Deposits		
	12.31.10	12.31.09	12.31.09
Civil	112,175	97,826	34,869
Labor	103,092	68,586	50,462
Tax (*)	170,148	61,108	58,593
Regulatory	104	-	-

385,519	227,521	143,924
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(\*) In April 2008, Federal Law No. 11.652 was published related to the payment of the contribution for Development of the Public Radio Service to EBC (Empresa Brasil de Comunicação). It is the understanding of the company that this Law is unconstitutional since the contribution instituted lacks the necessary characteristics for the valid creation of any taxes in accordance with the Federal Constitution. An injunction was filed in court to protect the interests of TIM Celular, and in March 2010 court deposits were made related to the contribution for 2010 in the amount of R\$56,086. For this court deposit there is a provision in the same amount recorded under “Indirect taxes and contributions payable” in non-current liabilities. The writ of mandamus is pending court decision at the lower court. In the opinion of the Company's internal and external legal counsel, the risk of loss is probable.

14	Other assets	12.31.10	12.31.09	01.01.09
Advances to suppliers		61,403	81,210	11,958
Advances to employees		4,879	5,723	5,712
Tax incentives		13,533	13,358	14,260
Other assets		36,539	5,862	2,177
		116,354	106,253	34,107
Current portion		(98,591 )	(94,390 )	(26,839 )
Long-term portion		17,763	11,863	7,268

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of Reais, unless otherwise stated)

## 15 Property, plant and equipment

## (a) Variation in property, plant and equipment

	Balance as of December 31, 2009	Additions	Disposals	Transfer	Balance as of December 31, 2010
<b>Cost of property, plant and equipment, gross</b>					
Commutation / transmission equipment	8,538,467	-	(2,545 )	892,907	9,428,829
Fiber optic cables	463,384	-	-	3,054	466,438
Leased hand sets	1,212,042	-	(72,687 )	186,713	1,326,068
Infrastructure	2,049,973	-	(39 )	161,795	2,211,729
Computer assets	1,106,637	-	-	49,994	1,156,631
General use assets	432,980	-	(1,862 )	26,710	457,828
Plots of land	37,622	-	-	553	38,175
Construction work in progress	654,045	1,745,985	-	(1,321,726)	1,078,304
<b>Total property, plant and equipment, gross</b>	<b>14,495,150</b>	<b>1,745,985</b>	<b>(77,133 )</b>	<b>-</b>	<b>16,164,002</b>
<b>Accumulated depreciation</b>					
Commutation / transmission equipment	(5,763,613 )	(858,360 )	2,111	-	(6,619,862 )
Fiber optic cables	-	(30,934 )	-	-	(30,934 )
Leased hand sets	(865,764 )	(291,786 )	45,442	-	(1,112,108 )
Infrastructure	(1,137,850 )	(150,734 )	5,869	-	(1,282,715 )
Computer assets	(950,838 )	(79,676 )	905	-	(1,029,609 )
General use assets	(183,313 )	(37,164 )	(4,574 )	-	(225,051 )
<b>Total Accumulated depreciation</b>	<b>(8,901,378 )</b>	<b>(1,448,654)</b>	<b>49,753</b>	<b>-</b>	<b>(10,300,279)</b>
<b>Property, plant and equipment, net</b>					
Commutation / transmission equipment	2,774,854	(858,360 )	(434 )	892,907	2,808,967
Fiber optic cables	463,384	(30,934 )	-	3,054	435,504
Leased hand sets	346,278	(291,786 )	(27,245 )	186,713	213,960
Infrastructure	912,123	(150,734 )	5,830	161,795	929,014
Computer assets	155,799	(79,676 )	905	49,994	127,022
General use assets	249,667	(37,164 )	(6,436 )	26,710	232,777
Plots of land	37,622	-	-	553	38,175
Construction work in progress	654,045	1,745,985	-	(1,321,726)	1,078,304
<b>Total property, plant and equipment, net</b>	<b>5,593,772</b>	<b>297,331</b>	<b>(27,380)</b>	<b>-</b>	<b>5,863,723</b>

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of Reais, unless otherwise stated)

	Balance as of		Disposals		Intelig	Balance as of
	January 1, 2009	Additions	(Write- offs)	Transfer	Balance	December 31, 2009
Cost of property, plant and equipment, gross						
Commutation / transmission equipment	7,726,698	563	-	563,332	248	8,538,467
Fiber optic cables	-	-	-	-	463,384	463,384
Leased hand sets	955	381	(123 )	380,566	-	1,212,042
Infrastructure	1,930,992	118	-	118,293	688	2,049,973
Computer assets	1,066,639	30	-	29,787	10	1,106,637
General use assets	352	56	(73 )	55,815	26	433
Plots of land	27,790	184	-	184	9,648	37,622
Construction work in progress	277	355	-	(1,147,977)	23	654
<b>Total property, plant and equipment, gross</b>	<b>12,334,725</b>	<b>1,502,720</b>	<b>(196 )</b>	<b>-</b>	<b>780,845</b>	<b>14,495,150</b>
Accumulated depreciation						
Commutation / transmission equipment	(4,994,315 )	(769,344 )	46	-	-	(5,763,613 )
Fiber optic cables	-	-	-	-	-	-
Leased hand sets	(637,697 )	(312,670 )	84,603	-	-	(865,764 )
Infrastructure	(984,322 )	(153,528 )	-	-	-	(1,137,850 )
Computer assets	(822,231 )	(128,607 )	-	-	-	(950,838 )
General use assets	(142,360 )	(41,010 )	57	-	-	(183,313 )
<b>Total accumulated depreciation</b>	<b>(7,580,925 )</b>	<b>(1,405,159 )</b>	<b>84,706</b>	<b>-</b>	<b>-</b>	<b>(8,901,378 )</b>
Property, plant and equipment, net						
Commutation / transmission equipment	2,732,383	(206 )	46	563,332	248	2,774,854
Fiber optic cables	-	-	-	-	463,384	463,384
Leased hand sets	317	68	(38 )	380,566	-	346
Infrastructure	947	(35 )	-	118,293	688	912
Computer assets	244	(99 )	-	29,787	10	156
General use assets	209	15	-	55,815	26	250
Plots of land	27,79	184	(16 )	184	9,648	37,622
Construction work in progress	277	355	-	(1,147,977)	23	654
<b>Total Property, plant and equipment, net</b>	<b>4,753,800</b>	<b>97,561</b>	<b>(38,434 )</b>	<b>-</b>	<b>780,845</b>	<b>5,593,772</b>

## (b) Depreciation rates

	Average annual rate %
Commutation / transmission equipment	8 to 14.29



Fiber optic cables	4 to 10
Leased hand sets	50
Infrastructure	4 to 10
Computer assets	20
General use assets	4 to 10

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In compliance with ICPC 10, the Company and its subsidiaries evaluated the useful lives of property, plant and equipment and concluded that no changes in the circumstances on which the estimates were based justified any changes in the useful lives currently estimated.

## Operating technologies

The subsidiaries operate their service network using GSM and 3G technologies. On December 31, 2010, no provision for loss on recovery of property, plant and equipment was deemed necessary.

## 16 Intangible assets

The authorizations for SMP operation rights and radio frequency licensing, as well as software, goodwill and other items, can be shown as follows:

## (a) Variation in intangible assets

	Balance as of December 31, 2009	Additions	Transfers	Write-offs	Balance as of December 31, 2010
Cost of intangible assets, gross					
Software rights	6,115,624	746	746,174	-	6,861,798
Concession licenses	4,266,301	-	-	-	4,266,301
Subsidies on sales of devices and mini modems	1,521,244	290	290,336	-	1,811,580
Goods and facilities in progress	17	53	(1,036,510)	-	70
Goodwill	367,571	-	-	-	367,571
Other assets	33,181	-	-	-	33,181
<b>Total intangible assets, gross</b>	<b>12,320,429</b>	<b>1,089,775</b>	<b>-</b>	<b>-</b>	<b>13,410,204</b>
Accumulated amortization					
Software rights	(4,075,570)	(794,858 )	-	173	(4,870,255 )
Concession licenses	(1,943,627)	(302,517 )	-	-	(2,246,144 )
Subsidies on sales of devices and mini modems	(1,307,664)	(441,366 )	-	-	(1,749,030 )
Other assets	(2,856)	(6,066 )	-	(5 )	(8,927 )
<b>Total Accumulated Amortization</b>	<b>(7,329,717)</b>	<b>(1,544,807)</b>	<b>-</b>	<b>168</b>	<b>(8,874,356 )</b>
<b>Intangible assets, net</b>					
Software rights	2,040,054	(49 )	746,174	173	1,991,543

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Concession licenses	2,322,674	(302,517 )	-	-	2,020,157
Subsidies on sales of devices and mini modems	214	(151 )	290,336	-	63
Goods and facilities in progress	17	53	(1,036,510)	-	70
Goodwill	367,571	-	-	-	367,571
Other assets	30,325	(6,066 )	-	-5	24,254
<b>Total Intangible assets, net</b>	<b>4,990,712</b>	<b>(455,032 )</b>	<b>-</b>	<b>168</b>	<b>4,535,848</b>

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	Balance as of January 1, 2009	Additions	Transfers	Disposals	Intelig Balance	Balance as of December 31, 2009
<b>Cost of intangible assets, gross</b>						
Software rights	4,831,979	752,939	752,939		530,706	6,115,624
Concession licenses	4,079,741	-	-		186,56	4,266,301
<b>Subsidies on sales of devices and mini modems</b>						
	1,037,887	483,357	483,357		-	1,521,244
Goods and facilities in progress	84,554	(68,046)	(1,236,296)		-	16,508
Goodwill	157,556	-	-		210,015	367,571
Other assets	3,04	-	-		30,141	33,181
<b>Total intangible assets, gross</b>	<b>10,194,757</b>	<b>1,168,250</b>	<b>-</b>		<b>957,422</b>	<b>12,320,429</b>
<b>Accumulated amortization</b>						
Software rights	(2,744,240 )	(810,984 )	-	(2,170 )	(518,176 )	(4,075,570 )
Concession licenses	(1,557,176 )	(293,069 )	-		(93,382 )	(1,943,627 )
<b>Subsidies on sales of devices and mini modems</b>						
	(903,022 )	(404,642 )	-		-	(1,307,664 )
Other assets	(2,744 )	(112 )	-		-	(2,856 )
<b>Total Accumulated Amortization</b>	<b>(5,207,182 )</b>	<b>(1,508,807 )</b>	<b>-</b>	<b>(2,170 )</b>	<b>(611,558 )</b>	<b>(7,329,717 )</b>
<b>Intangible assets, net</b>						
Software rights	2,087,739	(58,045 )	752,939	(2,170 )	12,53	2,040,054
Concession licenses	2,522,565	(293,069 )	-		93,178	2,322,674
<b>Subsidies on sales of devices and mini modems</b>						
	134,865	78,715	483,357		-	213,58
Goods and facilities in progress	84,554	(68,046 )	(1,236,296)		-	16,58
Goodwill	157,556	-	-		210,015	367,571
Other assets	296	(112 )	-		30,141	30,325
<b>Total Intangible assets, net</b>	<b>4,987,575</b>	<b>(340,557 )</b>	<b>-</b>	<b>(2,170 )</b>	<b>345,864</b>	<b>4,990,712</b>

## (b) Amortization rates

## Annual average rate %

Software licenses	20
Concession licenses	5 to 20
Other assets	20

Subsidies on the sale of devices and mini-modems are amortized in 12 months.

Impairment test on intangible assets with undefined useful life.

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

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17	Suppliers			
		12.31.10	12.31.09	01.01.09
Local currency				
	Suppliers of materials and services	2,673,885	2,593,278	2,654,599
	Interconnection (a)	210,307	220,518	306,255
	Roaming (b)	240	274	846
	Co-billing (c)	91,870	118,684	177,008
		2,976,302	2,932,754	3,138,678
Foreign currency				
	Suppliers of materials and services	71,994	100,690	131,610
	Roaming (b)	55,173	66,538	58,426
		127,167	167,228	190,036
	Current portion	3,103,469	3,099,982	3,328,714

(a) This refers to the use of the networks of other fixed and mobile cell telephone operators, with calls being initiated in the TIM network and terminating in the network of other operators.

(b) This refers to calls made by customers outside their registration area, who are therefore considered visitors in the other network.

(c) This refers to calls made by a customer who chooses another long-distance operator.

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		18 Loans and financing			
		Guarantees	12.31.10	12.31.09	01.01.09
Local currency					
Banco do Nordeste: financing subject to fixed interest of 10% p.a. and a 15% and 25% timely payment discount on charges. This financing is the subject matter of a swap transaction intended as a hedge, which changes its cost to 76.90% of the CDI daily rate.	Bank Guarantee	24,825	40,950	56,830	
Banco do Nordeste: financing subject to fixed interest of 10% p.a. and a 15% and 25% timely payment discount on charges. This financing involves a swap transaction intended as a hedge, which changes the cost into between 75.75% and 69.80% of the CDI daily rate.	Bank guarantee and TIM Participações' surety	36,508	54,861	71,603	
Banco do Nordeste: financing subject to fixed interest of 10% p.a. and a 15% and 25% timely payment discount on charges..	Bank guarantee and TIM Participações' surety	56,917	68,063	45,287	
B N D E S ( B a n c o N a c i o n a l d o Desenvolvimento Econômico e Social): this financing bears interest at 4.23% p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank. Part of this TJLP-based financing involves a swap transaction for 91.43% of the Bank Deposit Certificate (CDI) daily rate.	TIM Participaçõe' guarantee and TIM Celular receivables.	583,498	802,310	1,019,898	
B N D E S ( B a n c o N a c i o n a l d e Desenvolvimento Econômico e Social): This financing bears an average interest rate of approximately 2.34% plus the TJLP (Long Term Interest Rate) disclosed by the Brazilian Central Bank, on the 82.8% "incentive" portion and an interest rate consisting of the IPCA, plus	TIM Participações guarantee and TIM Celular receivables.	949,902	657,727	270,496	

the BNDES cost of obtaining the funding on the 17.2% portion.

BNDES (Banco Nacional de Desenvolvimento Econômico e Social): This financing bears an interest rate of 4.5% p.a. This loan is part of the program named PSI (Investment Sustainability Program)

TIM Participações  
guarantee and TIM  
Celular receivables

70,097

0

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 financing based on the TJLP involved a swap transaction for 81.80% of the daily CDI.

Bank guarantee

10,569

23,252

35,892

BNDES (Banco Nacional de Desenvolvimento Econômico e Social): bears an average interest of 4.82% p.a., plus the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank. This loan is part of the program named PSI (Investment Sustainability Program)

TIM Participações'  
guarantee and TIM  
Celular receivables.

407,268

407,373

-

Syndicated loan. The outstanding balance is updated by the variation of the CDI rate plus the respective applicable margin of 1.80% and 2.75% of the CDI.

TIM Participações'  
surety

590,440

628,747

CCB – Bank financing in local currency, contracted with Banco Santander to meet working capital requirements. Its cost is 110% of the daily CDI rate.

N.A.

204,957

203,750

205,634

Resolution 2770: Bank financing at an interest rate of 108% of the CDI.

N.A.

165,901

516,517

1,214,832



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## Foreign Currency

BEI: The outstanding balance is updated by the LIBOR 6M plus SPREAD. Loan in foreign currency, with 100% coverage against foreign exchange exposure through swap transactions at the average interest rate of 95.42% of the CDI.

Bank guarantee and TIM Participações' surety	479,337	422,276
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Banco BNP Paribas: Loan taken out in foreign currency and updated by LIBOR 6M+ Spread, for which 80% of the risk is guaranteed by the insurance company "SACE S.p.A". This transaction is 100% hedged against foreign exchange exposure through swap transactions at the average cost of 95.01% of the CDI.

TIM Participações' surety	244,891	254,397
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Morgan Stanley Bank: Debt in the amount of US\$68,000,000

TIM Celular's surety	-	118,402
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Total	3,234,670	4,159,958	3,549,219
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Current portion	(957,549	)(1,417,363	)(1,482,705	)
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Long-term portion	2,277,121	2,742,595	2,066,514
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Foreign currency loans taken with Banco BNP Paribas, with a guarantee provided by the SACE group and CCB (Bank Credit Schedules) contracted with Banco Santander Brasil S.A., include restrictive clauses that provide for compliance with some financial indices calculated on a half-yearly basis. The subsidiary TIM Celular is in compliance with all the required financial indices.

The loans taken by TIM Celular S.A. with the BNDES, for the purpose of expanding the mobile telephone network, also include restrictive clauses under which the company has to comply with certain financial indices calculated on a half-yearly basis. The subsidiary has been complying with all the required financial indices.

The BNDES released R\$92,000 in August 2010 under the PSI credit line, which is being used to purchase machines and equipment to expand our network capacity. Considering that the financing was granted by the development bank at an interest rate of 4.5% p.a., that is, below market rate, this transaction can be classified in the scope of IAS 20/CPC 07 – Governmental Subsidy and Assistance. Accordingly, using the effective interest rate method defined in IAS 39/CPC 38 – Financial Instruments, Recognition and Measurement, the following should be taken into account: a comparison was made between i) the total amount of the debt, based on the rates agreed in the contract and ii) the total amount of the debt based on rates in effect in the market (fair value). Based on this comparison, the subsidy released

by the BNDES was adjusted to present value of R\$22,772. This amount was recorded under “Prepaid Revenues – Governmental Subsidy – Long Term” and will be deferred over the useful life of the asset being financed and appropriated to “Other Revenues from Subsidies.”

The Company’s subsidiaries entered into swap transactions as protection against devaluation of the Brazilian currency (“Real”) vis-à-vis foreign currencies and changes in the fair value of their loans that were pegged to fixed interest rates and the TJLP (Long-Term interest Rate).

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The long-term portions of loans and financing as of December 31, 2010 mature as follows:

2012	623,409
2013	365,126
2014	215,141
2015	215,141
2016	858,304
	2,277,121

As for transactions involving financial instruments (liabilities), significant differences have not been identified between fair values and book values, especially because these instruments have been substantially contracted with the National Bank for Economic and Social Development (BNDES) and other Development Banks. In Brazil, there is no consolidated market for long-term debt with characteristics of BNDES financing arrangements because loans to entities in general, with the long-term characteristic, are usually granted by BNDES and other Development Banks. These financing arrangements have special features and conditions that are established in BNDES loan agreements between independent parties, and reflect the conditions for the types of financing that typically include particular characteristics, by applying rates that would be applicable to any entity, adjusted only by the specific credit risk of entities and projects involved.

19	Labor Obligations			
		12.31.10	12.31.09	01.01.09
	Payroll taxes	31,522	30,156	26,235
	Salaries and provisions payable	85,337	70,329	70,410
	Employees' withholding	8,433	7,378	10,346
		125,292	107,863	106,991
20	Indirect taxes, fees and contributions payable			
		12.31.10	12.31.09	01.01.09
	ICMS	419,294	470,311	400,766
	ANATEL taxes and fees	128,870	44,297	23,560
	Municipal Service Tax (ISS)	46,539	31,651	28,615
	Other	7,392	22,750	19,017
		602,095	569,009	471,958
	Current Portion	(544,375 )	(563,852 )	(471,958 )
	Long-Term Portion	57,720	5,157	-



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21	Direct taxes, fees and contributions payable			
		12.31.10	12.31.09	01.01.09
	IRPJ and CSSL	289,659	99,007	67.263
	PIS/COFINS	100,779	55,766	56.019
	Other	13,870	31,856	6.539
		404,309	186,629	129.821
	Current portion	(265,328 )	(162,645 )	(129.821 )
	Long-term Portion	138,981	23,984	-
22	Other liabilities			
		12.31.10	12.31.09	01.01.09
	Pre-paid services to be provided	264,147	134,053	103,769
	Reverse split of shares (*)	20,347	20,366	20,447
	Governmental subsidies (note 19)	22,772	-	-
	Other obligations	16,894	13,437	9,870
		324,160	167,856	134,086
	Current portion	(181,268 )	(115,450 )	(113,639 )
	Long-term Portion	142,982	52,406	20,447

(\*) On May 30, 2007, the Extraordinary General Meeting of the Company approved the reverse split of all the shares issued by the Company in the proportion of one new share for each (1,000) existing shares of the same type. From June 1, 2007 to July 2, 2007, shareholders adjusted their equity holdings in lots of (1,000) shares, by type, through private negotiation, in the OTC market or in the São Paulo Stock Exchange (BOVESPA) at their free and sole discretion.

On September 18, 2007, an auction was made in the São Paulo Stock Exchange (BOVESPA) for the sale of 2,285,736 shares (1,185,651 common shares under the code TCSL3 and 1,100,085 preferred shares under the code TCSL4), corresponding to the fractions resulting from this reverse split. The amounts calculated on the sale are at the disposal of the holders of these fractions since then.

## 23 Provision for contingencies

The Company and its subsidiaries are parties to certain lawsuits (labor, tax, regulatory and civil) which arise in the normal course of their business, and have set up provisions whenever management, based on the opinion of its legal advisors, concludes that there is a probable risk of loss.

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The provision set up for contingencies is made up as follows:

	12.31.10	12.31.09	01.01.09
Civil	40,531	91,801	97,988
Labor	53,162	49,512	55,170
Tax	145,099	159,105	76,762
Regulatory	10,265	24,090	23,450
	249,057	324,508	253,370

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

	12.31.09	Additions, net of reversals	Payments	Unwinding of Discount	12.31.10
Civil	91,801	43,866	(84,691 )	(10,445 )	40,531
Labor	49,512	3,618	(267 )	299	53,162
Tax	159,105	(11,134 )	(4,760 )	1,888	145,099
Regulatory	24,090	(3,893 )	(7,348 )	(2,584 )	10,265
	324,508	32,457	(97,066 )	(10,841 )	249,057

	01.01.09	Balance from company acquired	Additions, net of reversals	Payments	Unwinding of Discount	12.31.09
Civil	97,988	7,113	73,061	(84,130 )	(2,231 )	91,801
Labor	55,170	10,744	(11,436 )	(3,713 )	(1,253 )	49,512
Tax	76,762	116,490	(10,786 )	(10,982 )	(12,379 )	159,105
Regulatory	23,450	5,760	(2,943 )	(1,782 )	(395 )	24,090
	253,370	140,107	47,896	(100,607 )	(16,258 )	324,508

## Civil Contingencies

The Company and its subsidiaries are subject to various legal and administrative proceedings filed against them by consumers, suppliers, service providers and consumer protection agencies, in connection with a number of issues that arise in the regular course of business. Management analyzes each legal or administrative proceeding with the aim of reaching a conclusion in relation to any particular contingency, classifying it as representing a probable, possible or remote risk. This assessment made by management is based upon the opinion of the lawyers who are hired to deal with such cases. These assessments are reviewed at periodic intervals, and therefore can be modified over the course of the proceedings, in light of new facts or events, such as changes in case law.

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Consumer Lawsuits

The subsidiaries are parties to roughly 69,890 lawsuits (versus 61,697 as of June 30, 2010), which are mostly claims that have been filed by consumers. The aforementioned lawsuits relate to questions regarding the relationship between the subsidiaries and their clients, with highlight going to allegations of undue collection, contract cancellation, equipment defects and failures in terms of equipment delivery, as well as unjustified inclusion in credit report services. For these actions, the Company provided for the accrual based on the above mentioned premises.

Class Actions

There are two main class actions against subsidiaries where the risk of loss is regarded as being probable: (i) a lawsuit against TIM Celular in the State of Bahia with the aim of obtaining a ban on charging long-distance rates for calls originating and received between the towns of Petrolina/PE and Juazeiro/BA, due to the existence of “state border areas”; and (ii) a lawsuit against TIM Celular in the State of Rio de Janeiro, involving the impossibility of charging a contract termination penalty in the case of theft of phone sets. Due to the fact that the referred lawsuits entail positive and negative obligations and, taking into account the impossibility of accurately quantifying possible losses at the current stage of the legal proceedings, no provisions have been set up by management regarding the above described contingencies.

Labor Contingencies

These refer both to claims filed by former employees, in relation to questions such as salary differences, wage parity, payments of variable compensation/commissions, additional legal payments, overtime and other provisions that were established during the period prior to privatization, as well as by former employees of service providers who, in accordance with the labor legislation in force, have filed claims against the Company and/or its subsidiaries on the grounds that they are responsible for labor related obligations that were not met with by the service provider companies that were contracted.

Labor Claims

Out of the total of 6,172 labor suits (5,192 as of June 30, 2010) filed against the Company and its subsidiaries, more than 79% relate to claims that involve service providers, with the great majority of these claims being concentrated in certain companies, which for the most part are located in the cities of São Paulo, Belo Horizonte, Rio de Janeiro, Curitiba and Recife. As a result of the merger of HOLDCO into TIM Participações, that took place in December 2009, there are 45 labor claims involving TIM and Grupo Docas.

In relation to third-party claims, a number of these relate to specific projects involving the revision of service provider contracts, which in 2006 led to the termination of some of these contracts, with the subsequent winding up of these companies and the laying-off of employees. Another significant percentage of the contingencies that exist relates to the organizational restructuring processes, with highlight going to the closure of the Client Relationship Centers in Fortaleza, Salvador and Belo Horizonte, which resulted in the termination of 800 employees, including in-house staff as well as outsourced personnel.

Any assessment of the chances of loss regarding these actions and the contingent values is subject to revision at periodic intervals, taking into account the legal decisions reached during the course of the aforementioned processes, on account of regulatory changes or changes in Case Law Guidelines and Precedents issued by Superior Courts.

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Adjustments in the labor provision are based, for the most part, on the concentration of efforts aimed at intensifying the standardization process in relation to the classification of the risks of labor-related claims involving the Company and its subsidiaries, taking into account the fact that the management of labor litigation makes use of numerous methods of procedural analysis and evaluation of the existing risks.

Tax Contingencies

IR and CSLL

In 2005, TIM Celular was assessed by the Minas Gerais office of the Federal Revenue Secretariat for the sum of R\$126,933, in connection with: (i) taxation of monetary variations on swap transactions and exchange variations on outstanding loans; (ii) a separate fine for failure to pay social contribution on net income on an estimated monthly basis for the year 2002 and part of 2001; (iii) alleged failure to pay corporate income tax on an estimated monthly basis for the year 2002; and (iv) remittance of interest overseas (IRRF – withholding income tax) – a voluntary disclosure that does not entail payment of arrears charges.

The subsidiary is currently challenging these assessments with the tax authorities. Based on the opinions both of the company's own lawyers as well as of law firms that provide the company with legal advice, management had concluded that the probable loss to be incurred with these processes would come to a figure of R\$32,750, and set up a provision in 2005 for this amount under the title "Provision for income and social contribution taxes".

In September 2009, TIM Celular enrolled in the REFIS (Fiscal Recovery Program) which provided amnesty in relation to fines and interest charges along with the possibility of payment of federal tax debits by installment. TIM Celular opted to enroll partially in the REFIS program regarding these fines, and paid the sum of R\$4,884 in relation to the installment corresponding to exclusions from net income before CSLL (Social Contributions on Net Income) and exchange variations. The amount of the provision that was set up under the title "Provision for Income and Social Contribution Taxes" in connection with CSLL was R\$8,547, while the amount of R\$3,663, which corresponds to the difference between the value that had been provisioned and the amount that was actually paid, was reversed in favor of the subsidiary.

The subsidiary continues to challenge these assessments with the tax authorities. At present the total amount assessed comes to a figure of R\$209,805, while the company has set up a provision for the sum of R\$24,203, the amount considered as probable loss by the management of the Company.

Regulatory Contingencies

Due to an alleged failure to comply with some of the provisions set out in the SMP (Personal Mobile Service) and STFC (Switched Fixed Telephone Service) regulations and the quality targets defined under the General Quality Targets Plan for SMP (PGMQ-SMP) and for STFC – ANATEL filed some Procedures for the Determination of Non-Compliance of Obligations – PADO, involving the subsidiaries. The provision for regulatory contingencies considers this evaluation.

The subsidiaries have made every effort and presented the arguments to avoid sanctions. These arguments, which are mostly of a technical and legal nature, may help significantly reduce the initial fine charged or lead to the definitive dismissal of the PADO, without any sanctions being applied.

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## Contingencies involving possible losses

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 the management and the Company's lawyers. No provisions have been set up for these contingencies and the Company does not expect material negative impacts in the financial statements, summarized as follows:

	2010	2009
Civil	364,550	238,390
Labor	262,330	165,647
Tax	2,397,408	1,494,077
Regulatory	79,803	58,496
	3,134,091	1,956,610

The main actions where the risk of loss is classified as possible are described below:

## Civil

## Class Actions

There are some class actions against subsidiaries where the risk of loss is regarded as possible and which deserve to be highlighted. The aforementioned actions can be summarized as follows: (i) a lawsuit against TIM Celular in the State of Pernambuco, challenging the Company's policy of exchanging defective phone sets, which is allegedly in disagreement with the manufacturer's warranty terms; (ii) a lawsuit against TIM Celular in the State of Rio Grande do Norte (city of Natal), questioning the quality of the services provided, as well as the quality of the network serving said State; (iii) a lawsuit against TIM Celular in the State of Pará, challenging the quality of the service provided by the network in São Felix do Xingú; (iv) lawsuits against TIM Celular in the State of Maranhão, challenging the quality of the service provided by the network in the municipalities of Balsas, Grajaú and Coelho Neto; (v) a lawsuit filed against TIM Celular, challenging the long distance charges levied on calls made in the municipality of Bertioga – State of São Paulo and in the surrounding region; and (iv) a lawsuit against TIM Celular in the State of Rio de Janeiro, challenging SMS sent without previous consent of consumer.

## Other Actions and Proceedings

TIM Celular, along with other telecommunications companies, is a defendant in lawsuit that has been brought by GVT in the 4th Lower Federal Court of the Federal District. The lawsuit is aimed at getting a declaration considering, as null and void, the contractual clause which deals with the VU-M amount used by the Defendants as interconnection, which is deemed by the plaintiff to be illegal and abusive, and as such requiring the refunding of all amounts allegedly charged in excess since July 2004. The judge granted an injunction determining the provisional payment of VU-M at a figure of R\$0.2899 per minute, and ordered that GVT make court deposits equal to the amount of the difference between this amount and the amount indicated by the defendants. The injunction was confirmed by the TRF of the 1st Region. TIM appealed to this decision through a special appeal (RESP), which was partially granted, obliging

GVT to pay TIM the amount established by ANATEL in the arbitration process that is in progress with the Agency, and to which GVT and VIVO are parties. In addition to the lawsuit, GVT has also filed a representation before the SDE (Secretariat of Economic Law), which agreed to file an Administrative Proceeding against the Company and other mobile telephone operators, on the grounds of an alleged infraction of economic principles, which was judged in March 2010.

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The SDE ruled against the alleged practice of Price Squeeze and forwarded the process to CADE for judgment, also voting for the dismissal of the charge of uniform conduct ("cartel"). CADE's judgment is pending.

TIM Celular is the defendant in a lawsuit for damages that has been filed by the services provider GLÓRIA SOUZA & CIA LTDA. before the 9th Lower Court of the municipality of Belém, in the State of Pará, where it is claiming the sum of R\$6,119. The aforementioned company provided TIM with outsourced labor in northern Brazil. Given TIM's decision to terminate the contract, the other party, disagreeing, brought a lawsuit claiming moral damages, alleging losses as a result of claims for severance payments brought by its employees. TIM's defense and the reply from Gloria Souza & Cia. were presented.

A judicial action for collection was filed against TIM Celular by Mattos & Calumby Lisboa Advogados Associados, which is in progress at the 29th Lower Court of the Judicial District of Rio de Janeiro. The plaintiff asserts that it is owed money as a result of the contractual relationship that was entered into with TIM (Contract for the Provision of Professional Legal Services) The expert investigation was homologated and TIM filed an appeal.

A lawsuit has been brought against TIM Celular by the company (recharge distributor) INTEGRAÇÃO CONSULTORIA E SERVIÇOS TELEMÁTICOS LTDA., with the 2nd Lower Court of the Judicial District of Florianópolis-State of Santa Catarina for the sum of R\$4,000 which aims to suspend the enforceability of credits already executed by TIM, preliminarily claiming non-inclusion in credit reporting' lists, as well as damages caused by contract termination. It should be stressed that TIM filed an execution action against the aforementioned company with the 4th Lower Court of the Judicial District of Florianópolis-SC for the sum of R\$3,957. TIM has made a declaration to the effect that the assets indicated by the execution debtor are insufficient to secure the execution. The case records have been stayed since January 2010 due to the fact that an Interlocutory Appeal has been filed.

MCS was TIM's largest commercial partner in São Paulo (with approximately 40 stores). This commercial partnership had been in operation since 2003 and the contract ended in January 2010. The contract was terminated on account of disagreements between the parties in relation to the compensation amounts, the operation of the system, and the creation and determination of targets, along with other questions. MCS sought to lay the blame for its default and losses on TIM. It believes that its financial health has been negatively affected by the changes in TIM's remuneration policy. Even before the contract had come to an end, MCS filed a lawsuit for termination of the contract and a claim for the payment of R\$8,120. TIM filed a Restraining Action, in order to prevent MCS from transferring TIM stores to the competition.

In March/2010 the Restraining Action was ruled valid and it was determined that MCS should abstain from transferring the stores which were previously TIM stores for the period of twelve (12) months, starting from January 2, 2010 (the date when the contract ended). The action for termination of the contract is still in progress.

SECIT filed a lawsuit against TIM requesting indemnity and stating that TIM disregarded the agreement entered into between the two companies. SECIT was engaged by TIM to perform infrastructure works related to the installation of ERBs in area 4 (State of Minas Gerais). TIM filed a defense and the case is in the initial phase, pending judgment. The value on the action is R\$9,758.

Labor

Labor Claims

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A significant percentage of the existing contingencies relates to the organizational restructuring processes, with highlight going to the closure of the Client Relationship Centers (call centers) in Fortaleza, Salvador and Belo Horizonte, which resulted in the termination of 800 employees, including in-house staff as well as outsourced personnel.

Case records 01102-2006.024.03.00.0 refer to a public civil action filed by the Labor Public Prosecutor's Office of the 3rd Region of Minas Gerais, which alleged irregular outsourcing practices and contained a formal request for collective moral damages. A judgment was rendered and published on April 16, 2008, where the first degree acting judge ruled the Labor Public Prosecutors' Office claims as partially valid, recognizing the irregular outsourcing and the collective moral damages. An appeal was filed against this decision, and was dismissed on July 13, 2009. Prior to filing the aforementioned appeal, TIM filed a writ of mandamus to prevent the immediate compliance of the coercive acts imposed by the sentence. In view of the appeal filed, the writ of mandamus lost its purpose.

In order to obtain staying effects for its appeal, TIM Celular filed an innominate writ of prevention, which was dismissed without prejudice. In order to reverse the decision of the Regional Labor Court of the 3rd Region, TIM Celular filed an appeal against abusive acts of the judge with the Superior Labor Court, and obtained a favorable decision, which reversed the Court of Appeals' decision. A motion for clarification was filed, but dismissed. On September 16, 2009, a motion to appeal was filed, which is awaiting judgment by the TST (Higher Labor Court).

As a result of the above mentioned Public Civil Action in Minas Gerais, the Labor Public Prosecutor's Office of the Federal District filed case number 1218-2009.007.10.00.8 (Public Civil Action), alleging irregular outsourcing practices and a formal request for collective moral damages. The action was ruled groundless, establishing that, as a result of the General Telecommunications Law, all outsourcing in the telecommunications sector is legal. The Labor Public Prosecutor's Office of filed an Ordinary Appeal in March/2010, which was ruled groundless, the lower-court decision being upheld. A review appeal was filed, and is awaiting the decision of the TST Superior Labor Court).

A group of processes have been filed in the state of Paraná, involving claims for damages in connection with contractual provisions stamped in the employees' labor booklets. According to an internal rule, TELEPAR undertook to supplement the retirement benefits of employees hired up until 1982. Prior to privatization, TELEPAR had proposed to implement this benefit by means of the payment of a certain amount in cash. However, some of the company's former employees have questioned this transaction, and in some cases have obtained initial favorable decisions.

It should also be pointed out that there is a group of labor claims, particularly in São Paulo, from former Gazeta Mercantil employees who have filed claims requesting inclusion of Holdco or TIM Participações as defendants, with later payment of damages. We point out that the plaintiffs were employees of the company Gazeta Mercantil, without any ties to Holdco or TIM Participações. It should be stressed that prior to being taken over by TIM Participações, Holdco belonged to the Docas group, of which Gazeta Mercantil is a part.

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Tax Claims

IR and CSLL

On October 30, 2006, TIM Celular received a tax assessment in the initial amount of R\$331,171. In March 2007, the Federal Revenue Secretariat in Recife, State of Pernambuco, notified the subsidiary by means of a Tax Information Report, which informed the company that the amounts in connection with Income and Social Contribution Taxes and a separate fine, which added up to a total of R\$73,027 (principal and separate fine), had been excluded from the assessment notice, which therefore totaled R\$258,144.

The tax assessments which make up the aforementioned administrative proceeding include demands in connection with alleged non-collection of Income and Social Contribution Taxes, together with a separate unrelated fine, for various reasons. Most of the assessment relates to the amortization of goodwill resulting from the privatization auction of the Telebrás System and the related tax deductions. Under Law No. 9.532/97, art. 7, the proceeds of goodwill amortization can be included in the taxable income of a subsidiary created as a result of a merger, spin-off or consolidation, whereby one company has a stake in the other, with the said stake being acquired based on the future profitability of the investee. It should be stressed that this is a normal market transaction and is in accordance with CVM (Brazilian Securities Commission) Instruction No. 319/99.

As a result of the aforementioned Tax Information Report part of the infractions contained in the assessment notice on the temporary adequacy of goodwill deduction was transferred to 159 specific federal tax offsetting proceedings adding up to R\$85,771, which derived from offsetting of such recognition. In September 2009 there was a decision that was partially favorable to TIM Celular in one of the offsetting proceedings, reducing part of the credit offset by the subsidiary. At present, the subsidiary continues to challenge the remainder of the offsetting proceedings, both in the administrative sphere (R\$73,074) and in the judicial sphere (R\$9,193).

From May to July 2008, TIM Celular received other 49 assessment notices of the same nature, issued by the Brazilian Federal Revenue in connection with Income and Social Contribution Taxes offset by the subsidiary in the years 2002, 2003 and 2004, totaling R\$10,883. The aforementioned assessments were all timely challenged by the subsidiary, and the subsidiary is now awaiting a decision at the administrative level.

In December 2010, TIM Celular received an assessment notice drawn up by the São Paulo Federal Revenue Office, in the amount of R\$164,102 related to (i) alleged non-addition to the calculation base of IRPJ and CSL of the amount corresponding to goodwill amortization on the acquisition of shares in Tele Nordeste Celular Participações; (ii) exclusion of amortized goodwill; and (iii) deduction from IRPJ of tax reduction incentive and allegedly non-refundable additions, considering the alleged lack of formalization with the Federal Revenue of the incentives granted by Superintendence for the Development of the Northeast (Sudene). Said fine was timely refuted by the subsidiary and is pending a decision in the administrative sphere.

IRRF

In December 2006, the subsidiary Intelig received a tax assessment drawn up by the Federal Revenue Office in the amount of R\$49,652, as a result of alleged lack of payment of IRF and CIDE on such remittances. The tax assessment

was challenged in the administrative sphere and successfully terminated upon issue of a favorable Writ of Mandamus.

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PIS and COFINS

In 2004, TIM Celular was assessed in connection with PIS and COFINS allegedly due on exchange variation arising from revenue generated in 1999. The two assessment notices added up to a total amount of R\$30,913. TIM Celular had filed a Writ of Mandamus against the broadening of the tax assessment basis established by Law No. 9718/98. A judicial decision favorable to the company was issued in March 2006 in relation to the aforementioned Writ of Mandamus, declaring Law No. 9718/98 to be unconstitutional, preventing the collection of PIS and COFINS on non-operating revenue.

The above-mentioned tax assessments, which challenged the levying of PIS and COFINS on exchange rate variations in April 2007, the requirement for payment of PIS on exchange rate variations was canceled, and in February 2009, the requirement for payment of COFINS in connection with exchange rate variation was reduced by R\$23,339, leaving the amount of R\$2,263 still under discussion.

In October, November and December 2009, TIM Celular received 194 tax assessments amounting to the sum of R\$26,076 which involve the payment of COFINS in connection with the non-homologation of the request for offset for the fiscal years 2005, 2006 and 2007, related primarily to the import of services. The aforementioned assessments are being challenged by the subsidiary at the administrative level.

In May 2010, TIM Celular received 3 tax assessment notices drawn up by the Federal Revenue Secretaria in the State of São Paulo, in the amount of R\$50,026, related to: (i) lack of payment of IRRF tax on earnings from residents abroad and remitted as international roaming and payment to unidentified beneficiaries; (ii) lack of payment of CIDE tax on royalties in remittances abroad, as well as on remittances related to international roaming; and (iii) reduction of tax losses (IRPJ/CSLL) regarding deduction of unproven expenses involving technical services. Such fines were timely refuted by the company, and are pending a decision at the administrative sphere.

ICMS

TIM Celular received assessment notices from the tax authorities of the State of Santa Catarina in 2003 and 2004, mainly relating to disputes regarding the levying of ICMS on telecommunication services provided by the Parent Company and allegedly not paid, as well as in connection with the sale of phone sets. As a result of various favorable decisions in relation to the administrative processes the amount that is now being disputed is R\$41,576, (the original tax assessment was for the sum of R\$95,449). The subsidiary is currently challenging these assessments with the tax authorities at both the administrative as well as judicial levels. Based on the opinions both of the company's own lawyers as well as of law firms that provide the company with legal advice, management concluded that the processes still in progress may result in a possible loss for the subsidiary.

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Over the past few years, the subsidiary TIM Celular has received tax assessment notices drawn up by the tax authorities in various Brazilian States in connection with the payment of ICMS regarding operating aspects of the company's activity of provision of telecommunications services, as well as the commercialization of merchandise. Some grounds or reasons for tax assessments in connection with alleged failure to pay the tax, according to the allegations of the inspection agents include: (i) discussion regarding the requirement to pay the difference between the intrastate and interstate ICMS rate on the purchase of property, plant and equipment items for use and consumption and the determination of the ICMS basis of calculation for acquisition of goods intended for sale; (ii) recording of the taxed services (according to the understanding of the tax authorities) as not taxed by the subsidiary in the Transfer Register; (iii) alleged underpayment due to usage of the incorrect rate and the entry of telecommunications services as not taxed; (iv) alleged failure to make payment due to differences between the amount actually paid and the amount declared; and (v) payment of tax outside the term established by the state legislation, among others. The aforementioned assessments are being challenged in a timely fashion at both the administrative as well as the judicial level. The sum involved in those cases under discussion where the amount is in excess of R\$5,000, comes to a total of R\$105,661.

The subsidiary TIM Celular received tax assessment notices for ICMS drawn up by the tax authorities in the States of Rio de Janeiro and Bahia, for allegedly defaulting on payment of the tax, as well as the additional contribution regarding the "Fundo de Combate à Pobreza e às Desigualdades Sociais" (Fund for Fighting Poverty and Social Inequalities) allegedly due on: (i) the provision of international roaming services; and (ii) the provision of services in the pre-paid modality. The aforementioned assessments are being challenged at the administrative level and add up to a total sum of R\$50,446.

The subsidiary TIM Celular received tax assessment notices drawn up by the tax authorities of the States of Paraíba, Rio de Janeiro, Paraná, for the respective sums of R\$8,247, R\$38,274, R\$8,476, R\$19,938, R\$46,923 and R\$7,410, in connection with the failure to proportionally reverse ICMS credits on shipment of exempt and non-taxed goods. The aforementioned assessments are being challenged by the subsidiary at the administrative level and add up to a total sum of R\$72,199.

The subsidiary TIM Celular received assessment notices from the tax authorities of the State of São Paulo and the State of Minas Gerais for the respective sums of R\$286,010 and R\$17,167, for allegedly having failed to include conditional discounts offered to clients in the ICMS basis of calculation. This subsidiary intends to challenge the aforementioned collection at the higher court.

In 2008, 2009 and 2010 the subsidiary TIM Celular received tax assessment notices for the total sum of R\$122,208 drawn up by the tax authorities of the States of Ceará, São Paulo, Pernambuco, Paraná and Minas Gerais in connection with a debit arising from taking ICMS credit on the purchase of electric energy. The aforementioned assessments are being challenged by the subsidiary at the administrative level.

On November 19, 2002, the subsidiary Intelig was assessed by the State of Minas Gerais' tax authorities for the sum of R\$8,564, for allegedly having taken undue ICMS credit on the acquisition of property, plant and equipment items and materials intended for utilization and consumption by the company. This assessment is being challenged at the judicial level.

In November 2005, the subsidiary Intelig was assessed by the State of Mato Grosso's tax authorities for the sum of R\$11,723, for allegedly having taken undue ICMS credit on the acquisition of property, plant and equipment items without the support of the respective Invoice and of the difference in the rate of ICMS. The aforementioned assessment is being challenged at the judicial level.

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In December 2007 and December 2008, the subsidiary Intelig received two assessment notices from the State of São Paulo's tax authorities for the amounts of R\$5,204 and R\$11,385 for allegedly having taken undue ICMS credit in the years 2002 and 2003 by means of the reversal of debits in connection with the cancellation of telecommunications services that were not actually provided. The Company's attempt to reverse the assessment relating to the year 2002 was unsuccessful at the administrative level, and the discussion of the debit was initiated at the judicial level. This assessment in relation to the year 2003 is still being discussed at the administrative level.

TIM Celular was assessed by the tax authorities of the States of Paraná and Paraíba, in the amounts of R\$27,188 and R\$29,266 respectively, involving alleged lack of payment pay ICMS on the provision of telecommunication services (Pre-paid model) – phone card sales. Said tax assessments are being challenged at the administrative sphere.

In April 2010, TIM Celular received 3 tax assessment notices drawn up by the Treasury Office of the State of Ceará, in the amount of R\$17,558 for alleged (i) failure to pay ICMS ST tax, since the company did not transfer to “Property, plant and equipment” the goods purchased for inventory purposes, but loaned to customers and (ii) failure to pay ICMS tax deriving from the issuance of a tax document showing price below acquisition cost. These tax assessment notices are being challenged at the administrative sphere.

In November 2010, TIM Celular received 2 tax assessment notices drawn up by the Treasury Office of the State of São Paulo, in the amount of R\$18,444 for allegedly undue ICMS credit regarding telecommunication services not provided as a result of subscription fraud and alleged ICMS credit in duplicity relating to the year 2005. These tax assessments are being challenged at the administrative sphere.

In November 2010, TIM Celular received 3 tax assessment notices drawn up by the tax authorities of the States of São Paulo and Rio Grande do Sul, in the amount of R\$67,958, for the reversal of credits regarding the acquisition of permanent assets whose entries allegedly are not backed up in the CIAP (Control of ICMS Credits to Permanent Assets) book. The aforementioned assessments are being challenged at the administrative sphere.

ISS

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

FUST – Telecommunications Services Universalization Fund

On December 15, 2005, ANATEL issued its Abstract No. 07 aimed, among other things, at charging FUST contributions on the interconnection revenues earned by the providers of telecommunications services, from the date upon which Law No. 9998 came into force. It is the continued understanding of the subsidiary company that based on the applicable legislation (including the provision in the sole paragraph of article 6 of Law No. 9998/00), the abovementioned revenues are not subject to the FUST charge, and accordingly, management has taken the necessary measures to protect the interests of the subsidiary company. A writ of mandamus was filed to protect the interests of

the subsidiary in connection with the non-payment of FUST on interconnection revenues. ANATEL's intention to charge FUST on such revenues has been suspended, due to the judicial decision in favor of the subsidiary company. The writ of mandamus is pending the decision from the court of appeals.

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Since October 2006, ANATEL has issued a number of assessment notices against the subsidiary TIM Celular, in connection with FUST charges that are allegedly due on interconnection revenues for the years from 2001 to 2005, together with a fine for arrears, on account of Abstract No. 07/05. The assessments for this period add up to a total amount of R\$194,726.

The subsidiary Intelig has received a number of assessment notices from ANATEL, which add up to a total amount of R\$45,645 in connection with FUST charges that are allegedly due on interconnection revenues for the periods from January to December 2001, 2002 and 2003, respectively. The aforementioned assessments are being challenged at the administrative level.

FUNTTEL – Telecommunications Technological Development Fund

The Ministry of Communications drew up assessment notices against the subsidiary TIM Celular in the amount of R\$166,943, in connection with FUNTTEL amounts allegedly due on interconnection revenues for the years from 2001 to 2005, as well as a fine for arrears. It is the continued understanding of the Company that the above mentioned revenues are not subject to FUNTTEL. A writ of mandamus was filed to safeguard the Company's interests in relation to the non-payment of FUNTTEL on interconnection revenues, on the same grounds as those used for the FUST process. The intention to charge FUNTTEL on interconnection revenues is under suspension, due to a favorable ruling obtained in relation to the writ of mandamus that was filed by the subsidiary.

The subsidiary Intelig has received a number of assessment notices from the Ministry of Communications, which add up to a total amount of R\$14,587 in connection with FUNTTEL charges that are allegedly due on interconnection revenues for the periods from January to December 2002, March to December 2003, April to December 2004 and January to November 2005, respectively. The aforementioned assessments are being challenged at the administrative level.

Regulatory proceedings

TIM Celular is authorized to provide SMP in all Brazilian states for an indefinite period, and to use the radio frequencies associated with SMP, having obtained an extension from ANATEL of the authorizations for such radio-frequency usage, under the Terms of Authorization, for a period of 15 years counting from the end of the original period of validity of these authorizations.

ANATEL's orders issued in July 2010 officialized the staying effects of collection of 2% on interconnection revenues related to payment for renewal of RFs. Our provisions were not impacted since at no time did we not consider any regulatory obligation associated with this payment.

In view of the extension of authorization of usage of the radio frequencies associated with SMP, the subject matter of the above mentioned Terms of Authorization issued in accordance with the respective Acts, the Company received demands from ANATEL for payment of 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, for the sums shown in the table below. In the Company's opinion these charges are improper.

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State	Term of authorization	Expiration Date	Act	Amount
Paraná (except for the municipalities of Londrina and Tamarana)	002/2006/PVCP/SPV	9/3/2022	257,551 dated 4/13/2006	R\$80,066
Santa Catarina	074/2008/PVCP/SPV	9/30/2023	5,520 dated 9/18/2008	R\$54,026
Municipality and region of Pelotas in Rio Grande do Sul	001/2009/PVCP/SPV	4/14/2024	1,848 dated 4/13/2009	R\$333,444
Ceará	089/2008/PVCP/SPV	11/28/2023	7,385 dated 11/27/2008	R\$41,728
Alagoas	045/2008/PVCP/SPV	12/15/2023	7,383 dated 11/27/2008	R\$20,038
Rio Grande do Norte	050/2008/PVCP/SPV	12/31/2023	7,390 dated 11/27/2008	R\$15,021
Paraíba	047/2008/PVCP/SPV	12/31/2023	7,386 dated 11/27/2008	R\$19,844
Piauí	049/2008/PVCP/SPV	3/27/2024	7,389 dated 11/27/2008	R\$13,497
Pernambuco	089/2008/PVCP/SPV	5/15/2024	7,388 dated 11/27/2008	R\$54,000

The demand for payment of TFI is a result of Anatel's understanding that Art. 9, III, of the Regulations for Collection of Revenues of the FISTEL Telecommunications Inspection Fund, approved by Resolution No. 255, which foresees the levying of TFI on the station at such time as the license is renewed, which entails the issuing of a new license. However, in the Company's understanding this does not appear to be the correct interpretation of the provisions of the legislation applicable to the matter at hand, which is why the aforementioned charge was the cause for the timely challenge at the administrative level, with the requirement for payment of the charge being suspended until the definitive ruling of the challenge from ANATEL.

According to the Terms of Authorization for the operation of Personal Mobile Service (SMP), the subsidiary companies undertook to implement coverage of SMP in stages in relation to their respective regions, within the scope of the areas they were awarded, and they have done this. Also in accordance with the aforementioned Terms of Authorization, the subsidiary companies are required to operate in accordance with the quality standards established by ANATEL and comply with the obligations determined by the regulations. If there is a failure to perform the obligations as set out under the Terms of Authorization, the subsidiaries are subject to the filing of PADOs (Proceedings for the Determination of Noncompliance of Obligations) and possible sanctions as a result.

ANATEL has brought administrative proceedings against the subsidiaries for:

- (i) noncompliance with certain quality service indicators; and
- (ii) default on certain obligations assumed under the Terms of Authorization and relevant regulations.

The subsidiaries filed administrative defenses, administrative appeals and reconsideration requests to ANATEL explaining that the reasons for default were due to several factors, most of them involuntary and not related to the companies' activities and actions. The provision for regulatory contingencies shown in the balance sheet reflects the amount of losses expected, that is, those deemed as probable by management.



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## 24 Asset retirement obligations

The changes in the obligations deriving from asset retirement are set forth below:

	12.31.10	12.31.09
Opening balance	239,635	177,067
Additions recorded throughout the period, net of write-offs	14,428	52,762
Unwinding of discount	1,675	9,806
Closing balance	255,737	239,635

The provision is based on the estimated costs to be incurred on disassembly of towers and equipment at leased sites, discounted at present value so as to reflect the best current estimate.

## 25 Equity

## a. Capital Stock

Upon resolution by the Board of Directors, without amending the bylaws, the Company is authorized to increase its capital to up to 2,500,000,000 common or preferred shares.

The Shareholders' Meeting held on April 2, 2009, approved a capital increase in the amount of R\$18,761, through the issue 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 special goodwill reserve. Minority shareholders were assured capitalization rights, based on the same conditions applicable to controlling shareholders, so that they could keep their minority interests. The subscription price was R\$6.12 per common share and R\$3.00 per preferred share.

Following the merger of HOLDCO (note 2), the Shareholders' Meeting held on December 30, 2009, approved a capital increase of R\$516,725, through issuance of 43,356,672 common shares and 83,931,352 preferred shares, with no par value, issued by the Company and subscribed on behalf of JVCO.

The subscribed and paid-in capital comprises shares with no par value, as follows:

	2010	2009
Number of common shares	843,281,477	843,281,477
Number of preferred shares	1,632,453,583	1,632,453,583
	2,475,735,060	2,475,735,060

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b. Capital reserve

Special goodwill reserve

This reserve resulted from the corporate restructuring process carried out 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 in connection with this right must be delivered directly to the controlling shareholder, in accordance with CVM Instruction No. 319/99.

c. Profit reserves

Legal reserve

This refers to 5% of net income for every year ended December 31, until the legal reserve equals 20% of capital. Also, the Company is authorized to stop setting up a legal reserve when, together with the Capital Reserves, it exceeds 30% of capital stock. This reserve can be used only for capital increase or offsetting of accumulated losses.

Reserve for expansion

This reserve is set up based on paragraph 2, article 46 of the bylaws and article 194 of Law No. 6404/76, and is intended to fund investment and expansion projects, supported by capital budgets.

d. Dividends

Dividends are calculated in accordance with the Company's bylaws and the Brazilian Corporate Law.

As stipulated in its bylaws, the Company shall distribute an amount equivalent to 25% of adjusted net income as a minimum dividend every year ended December 31, provided there are funds available for distribution.

Preferred shares are nonvoting, but are ensured the following preferences or advantages: (i) priority in the payment of capital with no premium and (ii) payment of a minimum non-cumulative dividend of 6% p.a. on the total obtained by dividing the subscribed capital stock by the total number of shares issued by the Company.

In order to comply with Law No. 10303/01, the Company's bylaws were amended, including the first paragraph of article 10, which ensures the holders of preferred shares, every year, the right to receive dividends corresponding to 3% of net earnings per share, based on the balance sheet most recently approved, whenever the dividend established according to this criterion exceeds the dividend calculated according to the criteria previously established, as described in the preceding paragraph.

In 2010, the preferred shares were granted full voting rights since dividends had not been paid for three consecutive years, in accordance with the first paragraph of article 111 of Law No. 6404/76.

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Dividends were calculated as follows:

	2010	2009
Common shares	2,775,734	2,775,734
Preferred shares	5,373,362	5,373,362
Capital	8,149,096	8,149,096
Dividends: 6% to preferred shares, pursuant to bylaws	322,402	322,402
Equity – Common shares	2,834,871	2,653,574
Equity – Preferred shares	5,487,843	5,136,881
Total Equity	8,322,714	7,790,455
Dividends – 3% to preferred shares as per the Law 10.303/01	164,635	154,106
Net income for the year	2,216,909	214,893
(-) Offsetting of losses	(125,914 )	-
Income after offsetting	2,090,995	214,893
(-) Legal reserve	(104,550 )	(10,744 )
Adjusted net income	1,986,445	204,149
Dividends		
Minimum dividends calculated on 25% of adjusted income	496,611	51,037
(+) Additional dividends	-	153,112
(=) Dividends relative to the profit distribution	496,611	204,149
Dividends payable – common shares	169,155	-
Dividends payable – preferred shares	327,456	204,149
	496,611	204,149
Dividends per share (amounts in reais)		
Common share	0.2006	-
Preferred shares	0.2006	0.1251

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26	Net operating revenue	2010	2009
Telecommunications service revenue – Mobile			
Subscription and Use		8,911,976	8,068,181
Network use		3,679,365	4,042,612
Long distance		2,374,341	1,943,121
VAS – Additional services		2,241,530	1,907,188
Other		272,927	306,011
		17,840,139	16,267,113
Telecommunications service revenue – Fixed		1,281,246	89,860
Telecommunications service revenue – Mobile and Fixed		18,761,385	16,356,973
Goods sold		1,557,910	1,717,663
Gross operating revenue		20,319,295	18,074,636
Deductions from gross revenue			
Taxes		(4,475,829 )	(3,916,506 )
Discounts given		(1,264,090 )	(850,066 )
Returns and other		(121,926 )	(149,930 )
		(5,861,845 )	(4,916,502 )
Total net revenue		14,457,450	13,158,134

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27	Cost of services provided and goods sold	2010	2009
	Personnel	(58,450 )	(60,846 )
	Third party services	(337,021 )	(315,550 )
	Interconnection	(3,602,984)	(3,351,845)
	Depreciation and amortization	(1,994,184)	(1,816,000)
	ANATEL fees	(27,209 )	(19,627 )
	Rentals and insurance	(242,850 )	(165,966 )
	Other	(16,978 )	(17,351 )
	Cost of services provided	(6,279,676)	(5,747,185)
	Cost of goods sold	(1,026,091)	(925,184 )
		(7,305,767)	(6,672,369)

28	Selling expenses	2010	2009
	Personnel	(389,773 )	(366,653 )
	Third parties' services	(2,048,978)	(2,112,772)
	Advertising and publicity expenses	(537,221 )	(511,933 )
	Loss and allowance for doubtful accounts	(310,497 )	(422,163 )
	Telecommunications inspection fund (FISTEL)	(817,891 )	(614,281 )
	Depreciation and amortization	(311,173 )	(330,908 )
	Rentals and insurance	(37,274 )	(38,180 )
	Other	(41,801 )	(39,861 )
		(4,494,608)	(4,436,751)

29	General and administrative expenses	2010	2009
	Personnel	(138,499 )	(135,726 )
	Third parties' services	(411,664 )	(363,108 )
	Depreciation and amortization	(385,586 )	(473,989 )
	Rentals and insurance	(52,418 )	(36,787 )
	Other	(20,527 )	(23,828 )
		(1,008,694)	(1,033,438)



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30	Other income (expenses), net	2010	2009
<b>Income</b>			
	Fines on telecommunications services	31,137	35,755
	Other operating income	272	3,294
		31,409	39,049
<b>Expenses</b>			
	FUST/FUNTEL	(114,986 )	(100,601 )
	Taxes, fees and contributions	(8,537 )	(9,857 )
	Provision for contingencies, net of reversal	(31,153 )	(69,984 )
	Expenses with disposal of property, plant and equipment	(10,298 )	(10,000 )
	Other operating expenses	(12,165 )	(17,652 )
		(177,139 )	(208,094 )
	Amortization of concessions	(302,517 )	(293,069 )
		(479,656 )	(501,163 )
	Other income (expenses), net	(448,247 )	(462,114 )

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31	Financial income		
		2010	2009
	Interest on financial investments	145,537	70,204
	Interest received from clients	45,180	46,542
	Unwinding of discount	37,680	14,476
	Other revenue	3,274	5,811
		231,671	137,033
32	Financial expenses		
		2010	2009
	Interest on loans and financing	(296,508 )	(276,712 )
	Interest paid to suppliers	(18,793 )	(11,006 )
	Interest on taxes and fees	(14,741 )	(2,334 )
	Unwinding of discount	(5,112 )	(323 )
	Discounts given	(21,564 )	(17,816 )
	Other expenses	(23,783 )	(20,717 )
		(380,501 )	(328,908 )
33	Foreign exchange differences, net		
		2010	2009
	Gains		
	Loans and financing	154,972	399,029
	Suppliers	12,926	26,282
	Swaps	290,010	260,228
	Other	8,940	11,257
		466,848	696,796
	Losses		
	Loans and financing	(145,588 )	(53,665 )
	Suppliers	(10,409 )	(7,076 )
	Swaps	(395,371 )	(665,713 )
	Other	(12,107 )	(23,582 )
		(563,475 )	(750,036 )
	Foreign exchange differences, net	(96,627 )	(53,240 )

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## 34 Income and social contribution tax expenses

	2010	2009
Income tax		
Income tax for the period	(165,672 )	(128,602 )
Social contribution for the period	(61,643 )	(46,395 )
Tax incentive - ADENE	36,663	88,851
	(190,652 )	(86,146 )
Deferred income tax		
Deferred income tax	1,064,076	51,016
Deferred social contribution	383,614	18,366
Deferred taxes on adjustments from adoption of CPC's	-	38,541
	1,447,690	107,923
Provision for income and social contribution tax contingencies	-	11,249
	1,257,038	33,026

The reconciliation of income tax and social contribution expenses calculated at the applicable tax rates to the amounts reflected in the income statement is set forth below:

	2010	2009
Income before income tax and social contribution	954,677	308,347
Combined tax rate	34 %	34 %
Income tax and social contribution at the combined tax rate	(324,590 )	(104,838 )
(Additions)/exclusions:		
Unrecognized tax losses and temporary differences	81,453	22,678
Provision for income and social contribution tax contingencies	-	11,249
Tax losses and recognized temporary differences	1,435,245	107,923
Permanent (additions)/exclusions	(6,414 )	(9,905 )
Tax incentive – ADENE	36,663	88,851
Difference in calculation of tax loss from previous years	21,953	(31,922 )
Other amounts	12,728	(5,654 )
	1,581,628	137,864
Income tax and social contribution charged to income for the year	1,257,038	33,026





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## 35 Earnings per share

## (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the company by the weighted average number of common and preferred shares outstanding during the year.

	2010	2009
Profit attributable to shareholders of the company	2,216,909	341,373
Weighted average number of common and preferred shares (thousands)	843,281	843,281
Basic earnings per share	2,6289	0,4048

## (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company does not have potential common shares.

## 36 Transactions with Telecom Italia Group

The consolidated balances of transactions with companies of the Telecom Italia Group are as follows:

	Assets	
	2010	2009
Telecom Personel Argentina (1)	1,043	1,576
Telecom Italia Sparkle (1)	12,578	11,548
Telecom Italia S.p.A. (2)	3,251	3,893
Other	1,102	524
Total	17,974	17,541

	Liabilities	
	2010	2009
Telecom Italia S.p.A. (2)	21,643	29,728
Telecom Personel Argentina (1)	1,849	1,561
Telecom Italia Sparkle (1)	4,225	11,887
Italtel (3)	15,361	
Other	1,470	509
Total	44,548	43,685

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	Revenue	
	2010	2009
Telecom Italia S.p.A. (2)	12,045	3,751
Telecom Personal Argentina (1)	8,682	1,891
Telecom Italia Sparkle (1)	16,871	1,772
Italtel (3)	2,047	
Other	7,177	259
Total	46,823	7,673

	Cost/Expense	
	2010	2009
Telecom Italia S.p.A. (2)	16,885	4,851
Telecom Italia Sparkle (1)	26,988	6,164
Telecom Personal Argentina (1)	5,135	1,296
Other	862	320
Total	49,870	12,631

- (1) These amounts refer to roaming, value-added services (VAS) and assignment of means.
- (2) These amounts refer to international roaming, technical post-sales assistance and value-added services (VAS).
- (3) The amounts refer to the development and maintenance of software used in telecommunication services billing.

On April 27, 2010, the Shareholders' Meeting of TIM Participações approved the renewal of the cooperation and support agreement between Telecom Italia S.p.A. and TIM Celular, and the Company as intervening party, effective between January 3, 2010 and January 2, 2011, amounting to approximately R\$20,700.

Until December 31, 2010, the amount of R\$20,105 was accrued (R\$23,296 in 2009), of which R\$19,101 refer to property, plant and equipment (R\$22,690 in 2009) and R\$1,004 refer to costs/expenses (R\$606 in 2009). The agreement is intended to add value to the Company by utilizing Telecom Italia's experience in: (i) improving the effectiveness and efficiency of the activities by adopting in-house solutions, and (ii) sharing systems, services, processes and best practices widely used in the Italian market, which can be easily customized to the Company's requirements.

The balance sheet account balances are recorded in the following groups: accounts receivable, suppliers and other current assets and liabilities.

The transactions with related parties are always performed on arms' length basis.



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37	Financial instruments and risk management
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Through its subsidiaries, the Company performs non-speculative derivative transactions, to reduce the exchange and interest risks involved. These transactions include by swap contracts, and accordingly, no exotic or any other kind of derivative instruments is involved.

The Company's financial instruments are presented, through its subsidiaries, in compliance with IAS 32/CPC39.

Accordingly, the major risk factors to which the Company and its subsidiaries are exposed are as follows:

(i) Exchange variation risks

The exchange variation risks refer to the possibility of subsidiaries incurring losses on unfavorable exchange rate fluctuation, which would raise the outstanding balances of loans taken in the market along with the related financial charges. In order to eliminate this kind of risk, the subsidiaries enter into swap contracts with financial institutions.

As of December 31, 2010, the subsidiaries' financing indexed to foreign currency was fully covered by swap contracts in terms of time and amount. Any gains or losses arising from these swap contracts are charged to income of the Company and its subsidiaries.

Besides the loans taken by the subsidiaries, which involve swap contracts, no other financial assets are indexed to foreign currencies.

(ii) Interest rate risks

Interest rate risks relate to:

- the possibility of variations in the fair value of financing obtained by TIM Celular at fixed interest rates, when these rates do not reflect the market's current conditions. In order to mitigate this type of risk, TIM Celular enters into swap contracts with financial institutions, and changes the fixed interest rates charged on the financing to a percentage of the CDI. Any gains or losses arising from these swap contracts are charged to income of the subsidiary TIM Celular;

- the possibility of variations in the fair value of TJLP-indexed financing taken by the subsidiary TIM Celular, when these rates are not proportional to that of the Interbank Deposit Certificates (CDI). In order to mitigate this type of risk, the subsidiary TIM Celular enters into swap contracts with financial institutions, and changes the TJLP rate charged on the financing into a percentage of the CDI. Any gains or losses arising from these swap contracts are charged to income of the subsidiary TIM Celular;

- the possibility of unfavorable changes in interest rates, which would result in higher financial expenses for the subsidiaries due to the indebtedness and the obligations assumed by the subsidiaries under the swap contracts indexed to floating interest rates (CDI percentage). However, as of December 31, 2010, the subsidiaries' financial funds were invested in Interbank Deposit Certificates (CDI), and this considerably reduces such risk.

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## (iii) Credit risk inherent to provision of services

This risk is related to the possibility of the subsidiaries incurring losses from the difficulty in collecting amounts billed to customers. In order to mitigate this risk, the subsidiaries perform credit analysis that assists management of risks related to collection problems, and monitor accounts receivable from subscribers, blocking the use of services by customers in case they default on payment of their bills. As of December 31, 2010 and 2009, no customers accounted for more than 10% of net receivables from services provided or of revenue from services rendered in the periods then ended.

## (iv) Credit risk inherent to the sale of phone sets and prepaid telephone cards

The policy adopted by the subsidiaries for the sale of phone 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 loan conditions, the positions and limits defined for orders placed by traders, and the adoption of guarantees are procedures adopted by the subsidiaries to minimize possible collection problems with their business partners. As of December 31, 2010 and 2009, no customers accounted for more than 10% of net receivables from the sale of goods or of revenue from the sale of goods in the periods then ended.

## (v) Financial credit risk

This risk relates to the possibility of the subsidiaries incurring losses from the difficulty in realizing their short-term investments and swap contracts due to bankruptcy of the counterparties. The subsidiaries minimize the risk associated with these financial instruments by operating only with sound financial institutions, and adopting policies that establish maximum risk concentration levels by institution.

## Fair value of derivative financial instruments

The consolidated derivative financial instruments are as follows:

	12.31.10			12.31.09		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Derivative transactions	22,868	(166,553)	(143,685)	78,264	(161,322)	(83,058)
Current portion	6,122	(2,071)	4,051	49,237	(48,122)	1,115
Noncurrent portion	16,746	(164,482)	(147,736)	29,027	(113,200)	(84,173)
				01.01.09		
				Assets	Liabilities	Net
Derivative transactions				387,573	(63,262)	324,311



Current portion	260,925	(52,448 )	208,477
Noncurrent portion	126,648	(10,814 )	115,834

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As of December 31, 2010 the long-term, consolidated financial derivative instruments matured as follows:

	Assets	Liabilities
2012	2,716	(564 )
2013	672	(2 )
2014	-	-
From 2015 on	13,358	(163,916 )
	16,746	(164,482 )

Consolidated assets and liabilities measured at fair value:

	2010 Consolidated		
	Level 1	Level 2	Total
<b>Assets</b>			
<b>Financial assets at fair value through profit or loss</b>			
Trading securities	2,304,077		2,304,077
Derivatives used for risk management	-	22,868	22,868
<b>Total assets</b>	<b>2,304,077</b>	<b>22,868</b>	<b>2,326,945</b>
<b>Liabilities</b>			
Derivatives used for risk management	-	166,553	166,553
<b>Total liabilities</b>	<b>-</b>	<b>166,553</b>	<b>166,553</b>

	2009 Consolidated		
	Level 1	Level 2	Total
<b>Assets</b>			
<b>Financial assets at fair value through profit or loss</b>			
Trading securities	2,225,510		2,225,510
Derivatives used for risk management	-	78,264	78,264
<b>Total assets</b>	<b>2,225,510</b>	<b>78,264</b>	<b>2,303,774</b>
<b>Liabilities</b>			
Derivatives used for risk management	-	161,322	161,322
<b>Total liabilities</b>	<b>-</b>	<b>161,322</b>	<b>161,322</b>

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1. The instruments included in Level 1 comprise, mainly, investments in Bank Deposit Certificates classified as trading securities.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or quotes from financial institutions or dealers for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair values of derivative financial instruments of the subsidiaries were determined based on future cash flows (asset and liability position), taking into account the contracted conditions and bringing those flows to present value by means of the discounted future interest rates disclosed in the market. The fair values were estimated at a specific time, based on information available and on the Company's own valuation methodologies.

Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's policy against financial risk – 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 to exchange variation and interest rate variation.

The contracting of derivative financial instruments against exchange exposure should occur simultaneously with the debt contract that originated the exposure. The level of risk coverage to be contracted for these exchange exposures is 100% in terms of time and amount.

With regard to the exposure to risk factors in local currency arising from financing linked to fixed interest rates or TJLP, given that the yield on the subsidiaries' cash and cash equivalents is based on the CDI, their strategy is to change part of these risks into exposure to the CDI.

As of December 31, 2010 and 2009, no type of margin or guarantee applied to transactions with derivative instruments entered into by the Company and its subsidiaries.

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The criteria for selection of financial institutions rely on parameters that take into account the rating provided by renowned risk analysis agencies, the shareholders' equity and the degree of concentration of operations and funds, being that as of December 31, 2010, 62% in AAA banks and 38% in AA banks.

The table below shows the derivative instruments transactions contracted by the subsidiaries and effective as of December 31, 2010 and 2009:

	Object	Currency	Reference Amount (National)		Fair Value		
			2010	2009	2010	2009	
Fixed interest risk vs. CDI	Part of financing obtained from BNB	BRL	34,501	58,878			
Asset position						62,700	97,050
Liability position						(55,415)	(87,767)
Net balance						7,285	9,283
TJLP risk vs. CDI	Part of financing obtained from BNDES	BRL	230,665	325,789			
Asset position						228,578	323,077
Liability position						(228,990)	(321,846)
Net balance						(412)	1,231
USD exchange risk vs. CDI	Full protection against exchange variation risk of Res. 2770 Lines granted by the banks Santander, ABN AMRO and Unibanco, in addition to loans obtained from BNP Paribas and BEI	USD	840,940	939,445			
Active position						673,770	839,010
Passive position						(824,328)	(943,693)
Net balance						(150,558)	(104,683)
JPY exchange risk vs. CDI	Full protection against exchange variation risk of Res. 2770 Lines granted by Banco Santander,	JPY	-	146,836			
Asset position						-	188,970
Liability position						-	(177,859)
Net balance							11,111

TOTAL	1,106,106,147,948 (143,685) (83,058)
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## Fixed interest swap vs. CDI

The subsidiary TIM Celular has debts contracted at fixed rates with Banco Nordeste do Brasil (BNB) and BNDES. With the purpose of protecting against possible loss in the case of falling interest rates, part of the financing transactions contracted in 2004 and 2005 with the BNB was protected with derivatives instruments. Said derivative instruments mature every month through April 2013 and protect approximately 53.02% of all the financing obtained from BNB by TIM Celular.

Based on BNB's current reference rate of 10% p.a., the financing obtained by the subsidiary TIM Celular and the respective derivative instruments contracted as part of these financing transactions average 11.17% p.a. as a receivable item and 72.91% of the CDI as a payable item. These derivative instruments were contracted from Santander and Itaú BBA S.A.

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TJLP Swaps vs. CDI

These derivative instrument transactions are intended to protect the subsidiary TIM Celular against possible loss due to an increase in BNDES's reference rate (TJLP) for financing contracted with this institution in 2005. Its payable portion is contracted at an average cost equivalent to 91.71% of the CDI. These transactions currently protect 12.90% of the total financing taken from BNDES. As of December 31, 2010, the subsidiary TIM Celular recorded a positive result from this transaction, having the following banks as counter parties: Santander and Itaú BBA S.A.

Exchange Swaps vs. CDI

The derivative instruments of this type are intended to protect the subsidiary TIM Celular against exchange risks involved in the foreign currency loan agreements obtained from BNP Paribas and also from BEI.

The loan from BNP Paribas is protected at an average cost of 95.01% of the CDI and the loan from BEI, protected at an average cost of 95.42% of the CDI.

As a receivable item, a swap is contracted using the same coupon as the drawn line. 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., in late 2017.

These derivative instruments were contracted with the banks Santander, Citibank, Morgan Stanley and BES.

Sensitivity Analysis Table – Effects of the variation in fair value of the swaps

For identifying possible distortions from consolidated derivative instruments 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	2010	Probable Scenario	Possible Scenario	Remote Scenario
Fixed rate debt (partial amount)	(62,700 )	(62,700 )	(61,176 )	(59,742 )
Fair value of swap receivable	62,700	62,700	61,176	59,742
Fair value of swap payable	(55,415 )	(55,415 )	(55,040 )	(54,680 )
Swap net exposure	7,285	7,285	6,136	5,062
TJLP-indexed debt (partial amount)	(228,578 )	(228,578 )	(222,187 )	(215,656 )
Fair value of swap receivable	228,578	228,578	222,187	215,656
Fair value of swap payable	(228,990 )	(228,990 )	(228,671 )	(228,384 )
Swap net exposure	(412 )	(412 )	(6,484 )	(12,728 )
USD-indexed debt (BNP Paribas and BEI)	(673,770 )	(673,770 )	(867,609 )	(1,071,609)
Fair value of swap receivable	673,770	673,770	867,609	1,071,609
Fair value of swap payable	(824,328 )	(824,328 )	(828,225 )	(832,383 )
Swap net exposure	(150,558 )	(150,558 )	39,384	239,226

Because the subsidiaries own only financial derivative instruments intended to safeguard their financial debt, the changes in the scenarios are accompanied by the respective hedge instrument, thus showing that the exposure effects arising from swaps are not significant. In connection with these transactions, the subsidiaries disclosed the fair value of debt and of the financial derivative instrument on separate lines (see above), so as to provide information on their net exposure in each of the three scenarios.

Note that all transactions with financial derivative instruments contracted by the subsidiaries are solely intended as hedges. Consequently, any increase or decrease in their respective market values will correspond to an inversely proportional change in the corresponding portion of the financial debt underlying the financial derivative instruments contracted by the subsidiaries.

Our sensitivity analyses referring to the derivative instruments in effect as of December 31, 2010 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 a reduction in the main indices (CDI and TJLP) and fluctuation of the foreign currencies used in swap transactions (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	10.64 %	13.30 %	15.96 %
TJLP	6.00 %	7.50 %	9.00 %
USD	1.6788	2.0985	2.5182

## Gains and losses on derivatives instruments in the period

	2010
Fixed interest risk vs. CDI	1,602
TJLP risk vs. CDI	3,519
USD exchange risk vs. CDI	(121,621)
JPY exchange risk vs. CDI	11,138
Net gains (loss)	(105,362)

## 38 Pension plans and other post-employment benefits

	12.31.10	12.31.09	01.01.09
Term of atypical contractual relationship (TRCA)	4,362	4,067	4,290
PAMA	4,486	3,187	1,946
PAMEC/active participants' policy	318	273	189
	9,166	7,527	6,425

## Supplementary Pension Plan

On August 7, 2006, the Company's Board of Directors approved the implementation by Itaú Vida e Previdência S.A. of PGBL and VGBL Supplementary Pension Plans for the Company, TIM Celular and TIM Nordeste, which was merged into TIM Celular. All employees not benefiting from pension plans sponsored by the Company and its subsidiaries were eligible for these supplementary plans.

## Term of Atypical Contractual Relationship

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

This agreement covers 86 employees hired before December 31, 1982, to whom a supplementary pension plan is granted, on the condition that retirement only occurs after a minimum service time of 30 years for men and 25 years

for women.

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As a result of the Telebrás spin-off in June 1998, the Company opted for extinguishing this supplementary pension plan. Accordingly, the participants were entitled to payment in cash of accumulated benefits or transfer of the obligations assumed under this plan to the PBT-SISTEL plan. Most of the participants opted for payment in cash or enrollment in the PBT-SISTEL plan. The remainder, duly provided for, will be used to cover benefits due to the employees who have not made their option (4 employees as of December 31, 2010 and 2009).

SISTEL and TIMPREV

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

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

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

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

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

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

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

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

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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 CPC 33, the plans having a surplus are not recorded by the Company, as it is impossible to recover these amounts. Besides, the amount of contributions will not be reduced for the future sponsor.

On January 29, 2007 and April 9, 2007, through the Brazilian Secretariat for Supplementary Pension Plans - SPC, the Ministry of Social Security approved the transfer of the management of the benefits plans PBS–Tele Celular Sul, TIM Prev Sul, PBT–TIM, Convênio de Administração, PBS–Telenordeste Celular and TIM Prev Nordeste (according to SPC/DETEC/CGAT Communications Nos. 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, which was extinguished, with the Company remaining responsible for coverage of the respective benefit, which from now on is called PAMEC/Apólice de Ativos.

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

Below is the actuarial position of the assets and liabilities related to pension and health care plans as of December 31, 2009, as provided for in CPC 33, for sponsored plans before the creation of TIMPREV, which still have active participants:

a) Effects as of the base date December 31:

	Plans			PAMEC/ Assets			Total	
	PBS	Assisted PBS	Administration agreement	policy	PAMA	TRCA	2010	2009
Reconciliation of assets and liabilities as of Dec. 31, 2010	(*)	(*)	(*)					

Present value of actuarial obligations	22,349	5,749	124	318	6,576	4,362	39,478	43,276
Fair value of plan assets	(40,329)	(9,601 )	(293 )	-	(2,090 )	-	(52,313)	(65,305)
Present value of obligations exceeding the fair value of assets	(17,980 )	(3,852 )	(169 )	318	4,486	4,362	(12,835 )	(22,029 )
Net actuarial liabilities (assets)	(17,980)	(3,852 )	(169 )	318	4,486	4,362	(12,835)	(22,029)

(\* ) No assets were recognized by the sponsor due to the impossibility of refunding this surplus. Additionally, the sponsor's contributions will not be reduced in the future.

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## b) Changes in actuarial liabilities (assets), net

	PBS	Assisted PBS	Administration Agreement	Plans PAMEC/ Assets Policy	PBT	PAMA	TRCA
Actuarial liabilities (assets) as of Dec. 31, 2009	(24,401 )	(3,102 )	(1,409 )	273	(644 )	3,187	4,067
Expenses (revenue) recognized in income for the previous year	(2,099 )	(209 )	(129 )	30	-	414	415
Sponsor's contributions	-	-	-	(13 )	-	(5 )	(312 )
Actuarial (gains) or losses recognized	8,520	(541 )	1,369	28	-	890	192
PBT plan extinction	-	-	-	-	644	-	-
Net actuarial liabilities (assets), as of Dec. 31, 2010	(17,980 )	(3,852 )	(169 )	318	-	4,486	4,362

## c) Statement of calculation of losses (gains)

	Plans PBS	Assisted PBS	Administration Agreement	PAMEC/ Assets Policy	PBT	PAMA	TRCA
(Gain) loss from actuarial obligations	(5,801 )	246	(823 )	28	436	1,130	192
(Gain)loss from plan assets	14,321	(787 )	2,192	-	-	(240 )	-
Loss from employee's contributions	-	-	-	-	-	-	-
Plan extinction	-	-	-	-	(436 )	-	-
Gain) loss as of Dec. 31, 2010	8,520	(541 )	1,369	28	-	890	192



d)

## Reconciliation of present value of liabilities

	Plans						
	PBS	Assisted PBS	Adminstration Agreement	PAMEC/ Assets Policy	PBT	PAMA	TRCA
Value of liabilities as of Dec. 31, 2009	26,205	5,373	864	273	1,420	5,074	4,067
Cost of current service	10	-	-	-	-	31	-
Interest on actuarial liabilities	2,784	571	92	30	-	552	415
Benefits paid for the year ((Gains)/losses from liabilities	(850 )	(440 )	(9 )	(13 )	-	(211 )	(31 )
Plan extinction	-	-	-	-	(1,420 )	-	-
Value of liabilities as of Dec. 31, 2010	22,348	5,749	124	318	-	6,576	4,643

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## e) Reconciliation of fair value of assets

	Planos			PAMEC/		
	PBS	Assisted PBS	Administration Agreement	Assets Policy	PBT	PAMA
Fair value of assets as of Dec. 31, 2009	50,606	8,475	2,273	-	2,064	1,887
Benefits paid for the year	(850 )	(440 )	(9 )	(13 )	-	(211 )
Contributions from participants	-	-	-	-	-	-
Sponsor's contributions	-	-	-	13	-	5
Actual earnings from assets for the year	(9,428 )	1,567	(1,972 )	-	(2,064 )	408
Fair value of assets as of Dec. 31, 2010	40,328	9,602	292	-	-	2,089

## f) Expenses for 2010

	Planos			PAMEC/		
	PBS	Assisted PBS	Administration Agreement	Assets Policy	PBT	PAMA
Cost of current service (with interest)	11,861	-	-	-	22	-
Interest on actuarial liabilities	2,262	589	13	33	690	448
Expected revenue from assets	(4,583 )	(1,079 )	(34 )	-	(211 )	-
Total net expenses (revenue) to be recognized	9,540	(490 )	(21 )	33	501	448

## Actuarial assumptions adopted in the calculations

The principal actuarial assumptions adopted in the calculations were as follows:

Nominal discount rate on actuarial liability: 10.66% a.a. (11,08% in 2009)  
 Nominal earnings rate expected on plan assets: PBS-A: 11.50% a.a. (9,44% in 2009)  
 PAMA: 10.59% a.a. (9,42 % in 2009)  
 Administrative Agreement: 11.69% a.a  
 (9,88% in 2009)  
 PAMEC: N/A

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	PBS-TCS - TNE: 9.88% a.a. (9,88% in 2009)
	ATÍPICO: N/A
Estimated index of nominal salary increase:	6.28% a.a. (6,28% in 2009)
Estimated index of nominal increase in benefits:	4.20% a.a. (4,20 % in 2009)
Biometric table of general death rate:	AT83 split by genre
Biometric table on disability:	Tábua Mercer Disability
Expected turnover rate:	Nil
Probability of retirement:	100% in the first eligibility to a Plan Benefit
Estimated long-term inflation rate:	4.20% (4,20% in 2009)
Accrual method:	Método do Crédito Unitário Projetado

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

## 39 Key Management Compensation

The short-term salaries and benefits paid to the Company's and its subsidiaries' management in the period ended December 31, 2010, totaled R\$5,795 (R\$7,569 in 2009).

## 40 Insurance

The Company and its subsidiaries maintain a policy for monitoring the risks inherent to their operations. Thus, as of December 31, 2010, the Company and its subsidiaries had 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 eventual losses. The table below shows the main assets, liabilities or interests insured and their respective amounts:

Types	Amounts Insured
Operating Risks	17,672,645
General Third Party Liability - RCG	50,000
Cars (Executive and Operational Fleets)	100% FIPE Chart. R\$1,000 for civil liability (Property Damages and Personal Injury) and R\$100 for Pain and Suffering.

## 41 Commitments

## Rentals

The equipment and property rental agreements signed by the Company and its subsidiaries have different maturity dates. Below is a list of minimum rental payments to be made under such agreements:

2011	329,412
2012	341,929
2013	354,923
2014	368,410
2015	382,409
	1,777,083

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

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Transactions with Telefónica Group

On April 28, 2007, Assicurazioni Generali SpA, 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 whole capital of Olímpia S.p.A., a company which, in turn, held approximately 18% of the voting capital of Telecom Italia S.p.A., the indirect parent company of TIM Participações. This acquisition was made through Telco S.p.A (“Telco”). With the implementation of the transaction in October 2007, Telco came to hold 23.6% of the voting capital of Telecom Itália S.p.A., the indirect parent company of TIM Participações.

Through its Act No. 68.276/2007, published in the Federal Government Official Gazette of November 5, 2007, ANATEL approved the transaction and imposed certain restrictions to guarantee absolute segregation of businesses and operations performed by the Telefónica and TIM groups in Brazil. For purposes of ANATEL’s requirements, TIM Brasil and TIM Celular submitted to ANATEL the necessary measures to ensure this segregation de facto and de jure in Brazil, so that Telefónica’s participation in Telco S.p.A. cannot characterize influence on the financial, operational and strategic decisions made by TIM’s Brazilian operations. Therefore, TIM continues to operate in the Brazilian market on the same independent and autonomous basis as before.

The agreements between the operators of the TIM group controlled by TIM Participações and the operators of the Telefónica group in Brazil, in force at December 31, 2010, refer solely to telecommunications services covering interconnection, roaming, site-sharing and co-billing procedures, as well as contracts relating to CSP (operator code) at regular price and conditions, in accordance with applicable legislation. As of December 31, 2010, the receivables and payables arising from these agreements amounted to R\$129,249 and R\$92,649 respectively (R\$133,504 and R\$99,145 in 2009). The amounts charged to income by the Company after approval of the transaction represent operating revenue and expenses totaling R\$1,282,522 and R\$855,939 respectively (R\$1,385,261 and R\$915,125 in 2009).

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## TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009

(In thousands of Reais, unless otherwise stated)

43	Expenses by nature		
		2010	2009
	Expenses by nature		
	Cost of services provided and goods sold	(7,305,767 )	(6.672.369 )
	Commercialization	(4,494,608 )	(4,436,751 )
	General and Administrative	(1,008,694 )	(1,033,438 )
	Other revenue/expense	(448,247 )	(462,114 )
		(13,257,316)	(12,604,672)
	Classified as:		
	Personnel	(586,722 )	(563,225 )
	Advertising and publicity	(537,221 )	(511,933 )
	Third party services	(2,797,663 )	(2,791,430 )
	Interconnection	(3,602,984 )	(3,351,845 )
	Cost of services provided and goods sold	(1,026,091 )	(925,184 )
	Depreciation and amortization	(2,993,461 )	(2,913,966 )
	Allowance for doubtful accounts	(310,498 )	(422,163 )
	Taxes, fees and contributions	(989,850 )	(741,588 )
	Others	(412,826 )	(383,338 )
		(13,257,316)	(12,604,672)

## 44 Supplementary disclosures about consolidated cash flow

		2010	2009
	Interest paid	296,533	254,420
	Income tax and social contribution paid	110,419	54,308

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EXHIBIT INDEX

- 1.1 By-laws of TIM Participações S.A., as amended (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, 2011.
- 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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 our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 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 our 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 our 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 our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
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- 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 our 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 our 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 our 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 our 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 our 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 our 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 our 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.
- 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.
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- 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.

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.

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- 2.42 Deposit Agreement, dated as of June 24, 2002, among Tele Celular Sul Participações S.A., J.P. Morgan 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 Telp 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 Telp 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.
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- 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.
- 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.
- 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 our 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 our 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 35 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), incorporated by reference to our 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.

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13.1\* Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

15.1 Letter dated June 29, 2011 of Ernst & Young Terco Auditores Independentes S.S. to the SEC, as required by Item 16F of Form 20-F, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2011.

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Filed herewith.

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