

TIM PARTICIPACOES SA
Form 20-F
April 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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

Title of each class

Name of each exchange on

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Common Shares, without par value* which registered
American Depositary Shares, as evidenced by American Depositary Receipts, New York Stock Exchange
each representing five Common Shares New York Stock Exchange
* Not for trading, but only in connection with the listing of American
Depositary Shares on the New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None
Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of
the period covered by the annual report.

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

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

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

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

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

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

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included
in this filing:
 U.S. GAAP International Financial Reporting Standards as issued by the International
Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item
the registrant has elected to follow.
 Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2
of the Exchange Act)
 Yes No

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PRESENTATION OF INFORMATION

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

References in this annual report to the “common shares” are to the common shares of TIM. References to the “American Depositary Shares” or “ADSs” are to TIM’s American Depositary Shares, each representing five common shares. The ADSs are evidenced by American Depositary Receipts, or “ADRs,” which are listed on the New York Stock Exchange, or the NYSE, under the symbol “TSU.”

Prior to August 2, 2011, we had common shares and preferred shares listed on the São Paulo Stock Exchange (BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros), or the BM&FBOVESPA, under the symbols “TCSL3” and “TCSL4,” respectively, and our ADSs each represented ten preferred shares. As part of our migration to the Novo Mercado listing segment of the BM&FBOVESPA, our preferred shares ceased to trade on August 2, 2011. On August 4, 2011, our ADSs representing preferred shares ceased to trade on the NYSE. From August 3, 2011, we only had common shares traded on the Novo Mercado listing segment of BM&FBOVESPA, under the symbol “TIMP3” and as from August 5, 2011, our ADSs representing five common shares instead of ten preferred shares commenced trading on the NYSE.

Market Share Data

We calculate market share information based on information provided by Brazil’s National Telecommunications Agency (Agência Nacional de Telecomunicações), or Anatel. We calculate penetration data based on information provided by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística), or IBGE.

Presentation of Financial Information

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5 to our consolidated financial statements.

On December 30, 2009, TIM Participações acquired Holdco Participações Ltda., or Holdco, which held 100% of the ownership of the telecommunications company Intelig, from JVCO Participações Ltda., or JVCO, in exchange for a 5.14% participation in TIM Participações' capital stock. We have included Intelig in our results of operations since November 30, 2009. Because Intelig is included in all 12 months of our 2010 results but only one month of 2009, our results of operations in 2010 are not fully comparable with our results of operations in 2009.

On October 31, 2011, we completed the acquisition of all of the ownership interest of AES Elpa S.A., or AES Elpa, in Eletropaulo Telecomunicações Ltda., or Eletropaulo Telecomunicações, and 98.3% of the interest of AES Communications Rio de Janeiro S.A., or AES RJ. We have included the results of operations of Eletropaulo Telecomunicações and AES RJ in our consolidated results of operations from November 1, 2011. The inclusion of

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these companies in our results of operations for the final two months of the year ended December 31, 2011 affects the comparability of our results of operations with the years ended December 31, 2012 and 2013. See “Item 5. Operating and Financial Review and Prospects—Factors Affecting the Comparability of our Results of Operations—Acquisition of AES Atimus.”

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

Solely for the convenience of the reader, we have translated some amounts included in “Item 3A. Key Information—Selected Financial Data” and elsewhere in this annual report from reais into U.S. dollars using the commercial selling exchange rate as reported by the Central Bank of Brazil (Banco Central do Brasil), or Central Bank, at December 31, 2013 of R\$2.3426 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the real amounts represent or have been or could be converted into U.S. dollars as of that or any other date. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for information regarding exchange rates for the Brazilian currency.

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

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

FORWARD LOOKING INFORMATION

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

- Brazilian wireless industry conditions, size and trends;
- characteristics of competing networks’ products and services;
- estimated demand forecasts;
- growing our subscriber base and especially our postpaid subscribers;
- development of additional sources of revenue;

- strategy for marketing and operational expansion;
- achieving and maintaining customer satisfaction;
- development of higher profit margin activities, attaining higher margins, and controlling customer acquisition and other costs; and

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- capital expenditures forecasts, funding needs and financing resources.

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

- government policy and changes in the regulatory environment in Brazil;
- an increase in the number of competitors in the telecommunications industry that could affect our market share;
- increased competition from global and local Over The Top, or OTT, players (operators such as mobile virtual network operators or branded resellers offering content and services on the Internet without owning their own proprietary telecommunications network infrastructure);
 - increased competition in our principal markets that could affect the prices we charge for our services;
 - our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide value-added services to encourage the use of our network;
- the introduction of transformative technologies that could cause a significant decrease in revenues for all mobile telephone carriers;
 - our ability to integrate acquired businesses and implement operational efficiency;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of uncertainties in credit and capital markets;
 - our ability to attract and retain qualified personnel;
 - our ability to integrate companies and assets that we acquire;
 - the effect of exchange rate fluctuations;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved; and
- other factors identified or discussed under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data presented below should be read in conjunction with our consolidated financial statements, including the notes thereto. Our consolidated financial statements included herein as of and for the years ended December 31, 2013, 2012 and 2011 have been audited by PricewaterhouseCoopers Auditores Independentes. The report of PricewaterhouseCoopers Auditores Independentes on the consolidated financial statements appears elsewhere in this annual report.

Our first financial statements prepared in accordance with IFRS were those as of and for the year ended December 31, 2010, which contain comparative amounts related to the year ended December 31, 2009. These financial statements were filed with the Brazilian Securities and Exchanges Commission (Comissão de Valores Mobiliários), or CVM and made publicly available in Brazil.

Until December 31, 2009, our consolidated financial statements were prepared in accordance with Brazilian GAAP. Brazilian GAAP is based on 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 Brazilian Federal Accounting Commission (Conselho Federal de Contabilidade), or CFC; the accounting standards issued by the Brazilian Accounting Standards Committee (Comitê de Pronunciamentos Contábeis), or 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.

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, 2013 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2013 (as reported by the Central Bank of R\$2.3426 to U.S.\$1.00). See “—Exchange Rates” for information regarding exchange rates for the Brazilian real. You should read the following information together with our consolidated financial statements and the notes thereto included elsewhere in this annual report and with “Item 5. Operating and Financial Review and Prospects.”

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| | As of and for the Year Ended December 31, | | | | | |
|--|--|---------------|--------------------------|--------------------------|-------------------|-------------------|
| | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| | U.S.\$ | R\$ | (Reclassified)(1) R\$ | (Reclassified)(1) R\$ | (Restated) R\$ | (Restated) R\$ |
| | (thousands of reais or U.S. dollars, unless otherwise indicated) | | | | | |
| Income Statement Data: | | | | | | |
| Net operating revenue | 8,503,923 | 19,921,291 | 18,763,947 | 17,085,977 | 14,457,450 | 13,158,134 |
| Cost of service provided and goods sold | (4,619,739) | (10,822,202) | (9,880,984) | (8,542,639) | (7,286,311) | (6,672,369) |
| Gross profit | 3,884,183 | 9,099,089 | 8,882,963 | 8,543,338 | 7,171,139 | 6,485,765 |
| Operating revenue (expenses) | | | | | | |
| Selling expenses | (2,096,611) | (4,911,522) | (4,774,161) | (4,848,512) | (4,494,608) | (4,436,751) |
| General and administrative expenses | (432,235) | (1,012,556) | (1,029,943) | (963,394) | (1,008,694) | (1,033,438) |
| Other revenue (expenses), net | (314,239) | (736,138) | (755,489) | (663,783) | (467,703) | (462,114) |
| Operating profit before financial income (expense) | 1,041,096 | 2,438,873 | 2,323,370 | 2,067,649 | 1,200,134 | 553,462 |
| Financial income (expenses) | (129,223) | (302,720) | (169,890) | (244,168) | (245,457) | (245,115) |
| Income before income tax and social tax contribution | 911,872 | 2,136,153 | 2,153,480 | 1,823,481 | 954,677 | 308,347 |
| Income tax and social contribution | (269,162) | (630,539) | (704,592) | (545,636) | 1,257,038 | 33,026 |
| Net income for the year | 642,710 | 1,505,614 | 1,448,888 | 1,277,845 | 2,211,715 | 341,373 |
| Net income per share | 0.2659 | 0.62276 | 0.59950 | 0.56450 | 0.8955 | 0.1379 |
| Diluted net income per share | 0.2659 | 0.62280 | 0.59943 | 0.56420 | 0.8955 | 0.1379 |
| Number of shares outstanding: | | | | | | |
| Common shares (in millions) | 2,418 | 2,418 | 2,418 | 2,418 | 843 | 843 |
| Preferred shares (in millions) | 0 | 0 | 0 | 0 | 1,632 | 1,632 |
| Dividends per share | 0.06317 | 0.1480 | 0.1423 | 0.1259 | 0.2006 | 0.1251 |
| Balance Sheet Data: | | | | | | |
| Property, plant, equipment and intangibles, net | 6,250,927 | 14,643,423 | 13,555,699 | 12,493,487 | 10,427,637 | 9,741,375 |
| Total assets | 12,011,511 | 28,138,167 | 26,108,977 | 23,533,424 | 19,397,273 | 16,109,896 |
| Loans and financing | 2,026,234 | 4,746,656 | 4,390,095 | 3,660,583 | 3,234,670 | 3,549,219 |
| Shareholders' equity | 6,230,103 | 14,594,640 | 13,832,870 | 12,953,354 | 10,300,809 | 7,695,618 |
| Capital stock | 4,200,362 | 9,839,770 | 9,839,770 | 9,839,770 | 8,149,096 | 7,613,610 |
| Cash Flow Data: | | | | | | |
| Operating Activities: | | | | | | |
| | 2,246,863 | 5,269,502 | 4,965,169 | 4,154,180 | 4,009,472 | 3,035,559 |

| | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Net cash provided by operations | | | | | | |
| Investing Activities: | | | | | | |
| Net cash used in investing activities | (1,522,642) | (3,560,907) | (3,764,726) | (4,319,253) | (2,581,475) | (2,544,848) |
| Financing Activities: | | | | | | |
| Net cash provided (used) in financing activities | (360,580) | (844,697) | (225,918) | 1,051,696 | (1,464,789) | 390,770 |
| Increase (decrease) in cash and cash equivalents | 366,200 | 857,862 | 1,166,925 | 886,623 | (36,792) | 881,481 |
| Cash and cash equivalents at beginning of year | 1,890,967 | 4,429,780 | 3,262,855 | 2,376,232 | 2,413,024 | 1,531,543 |
| Cash and cash equivalents at end of year | 2,257,168 | 5,287,642 | 4,429,780 | 3,262,855 | 2,376,232 | 2,413,024 |

(1) The reclassifications are illustrated in Note 3(b) of the accompanying Financial Statements.

Brazilian Economic Environment

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

Historically, macroeconomic conditions in Brazil have been characterized by wide swings in economic growth and significant fluctuations in interest, inflation, and foreign exchange rates. Nevertheless, socioeconomic indicators in Brazil, such as those related to income, labor and employment, have improved in recent years. Because the domestic market is one of the main economic drivers in Brazil, the Brazilian economy was generally resistant to the effects of the international economic and financial crisis in 2008 and 2009 and demonstrated relative stability during this period. In recent years, however, GDP growth and official interest rates in Brazil, as well as the exchange rate of the real against the U.S. dollar, have fluctuated.

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As a result of government measures to stimulate economic activity in 2010, focused particularly on household consumption and improving employment rates, GDP growth was 7.5%, reaching a value of approximately U.S.\$2.024 trillion, but was accompanied by inflationary pressure, which raised concerns about prolonged, sustainable growth. The official inflation rate in Brazil (Índice de Preços ao Consumidor Amplo), or IPCA, ended 2010 at 5.91%, the highest rate since 2004.

In 2010, to manage market expectations, the government initiated a process of monetary contraction by increasing the Special System of Settlement and Custody basic interest rate (Sistema Especial de Liquidação e Custódia), or SELIC, (which is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government) to 10.75% per annum at the end of 2010, from 8.75% per annum in 2009. The SELIC rate was revised, positively and negatively, during 2011 and was 11.00% as of December 31, 2011.

In 2011, the Brazilian government remained active in foreign exchange markets in an effort to curb the appreciation of the real. In addition to participating almost daily in the foreign exchange market buying dollars, the government adopted several measures to contain the appreciation of the real against the dollar, such as an increase of the tax on financial operations (Imposto sobre Operações Financeiras), or IOF, and restrictive measures in relation to foreign investment in Brazil. Despite these measures, the U.S. dollar depreciated 5.9% against the real in the first half of 2011. Foreign exchange markets began to shift in the second half of 2011, and the real depreciated 20% against the U.S. dollar.

The rate of inflation in Brazil accelerated during the first half of 2011, causing the government to respond with a further tightening of monetary policy. Through June 2011, the inflation rate was of 3.87%, equivalent to a twelve-month rate of 6.71%, exceeding the target set by the Central Bank. The IPCA ended the year with an increase of 6.4%, the highest since 2004.

In 2011, with a combination of inflationary pressure, domestic uncertainty and global economic uncertainty and financial volatility, together with the cessation of prior government measures to stimulate the economy, GDP growth slowed to 2.7%, which, while not as robust as the prior year, still exceeded the GDP growth of several developed economies during the same period.

Throughout 2012, global economic uncertainty and financial market volatility contributed to uncertainty in Brazilian economic conditions. Although the U.S. showed better financial conditions and stronger job market indicators in early 2012, its growth for the remainder of 2012 remained low given higher savings requirements, tighter fiscal policy and low global growth rates. During 2012, the continued uncertainty in Europe, particularly in Greece, Spain, Italy and Portugal, intensified concerns regarding the fiscal sustainability and risk of sovereign default of those countries, reducing the confidence of international investors and bringing volatility to the markets. The continued financial deterioration of these countries appears to have impaired the global economy and, indirectly, the growth of emerging markets, including Brazil and China, which experienced growth well below forecasts in 2012. The stock exchanges of emerging countries declined generally and international capital flows demonstrated less tolerance for political and economic uncertainties.

The Brazilian government, in the face of this speculative and volatile international economic environment, adopted a series of countercyclical measures to stimulate the economy, including tax decreases, a decrease in interest rates, an expansion of credit and a systematic easing of monetary policy. The SELIC rate was cut throughout 2012, reaching a low of 7.25% on October 10, 2012, where it remained until April 17, 2013 when it was again revised positively. Efforts by the Brazilian government to stimulate the economy did not have the intended effect, with GDP growth of only 0.9% in 2012.

Efforts by the Brazilian government to stimulate the economy were reversed in 2013 due to inflationary pressure. As of December 31, 2013, the SELIC rate was 10.00%. The trend of a depreciating real reversed temporarily in the first quarter of 2013, with the real reaching R\$1.95 per U.S.\$1.00 in early March 2013, only to continue its depreciation throughout much of the rest of the year, ending the year at R\$2.34 per U.S. \$1.00. The official inflation rate was 5.91% in 2013, above both the 5.84% recorded in 2012 and the 4.5% rate targeted by the

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Central Bank, though falling within the “oscillating” band of plus or minus two percentage points considered acceptable by the Central Bank. Inflation in 2013 was negatively impacted by food and housing prices, which increased 8.48% and 3.4%, respectively.

Inflation directly impacts our results of operations as result of certain of our assets and liabilities being subject to inflation adjustment, although the impact of these adjustments has not been material during the reported periods. In 2013, the net impact of inflation adjustments was a loss of R\$57.3 million and in 2012, was a gain of R\$3.4 million. The loss in 2013 can be explained by losses due to inflation adjustment on provisions for regulatory contingencies and, to a lesser extent, inflation adjustments on a R\$116 million loan from the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), or BNDES, offset in part by adjustment gains on judgments awarded to us and, to a substantially lesser extent, inflation adjustment gains on contracts.

In addition to the foregoing direct impacts, if inflation rises, disposable income of families may decrease in real terms, leading to lack of purchasing power among our customer base. Measures to combat inflation, such as a tight monetary policy with high interest rates, result in restrictions on credit and short-term liquidity, further decreasing the purchasing power of our customers.

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

| | For the Year Ended December 31, | | | | | |
|--|---------------------------------|---|--------|---|--------|---|
| | 2013 | | 2012 | | 2011 | |
| GDP growth (1) | 2.3 | % | 0.90 | % | 2.7 | % |
| Inflation (IGP-M) (2) | 5.53 | % | 7.81 | % | 5.10 | % |
| Inflation (IPCA) (3) | 5.9 | % | 5.8 | % | 6.5 | % |
| DI Rate (4) | 9.77 | % | 6.90 | % | 10.87 | % |
| TJLP (5) | 5.00 | % | 5.50 | % | 6.0 | % |
| Appreciation (devaluation) of the real against the U.S. dollar | 14.64 | % | 8.94 | % | 12.59 | % |
| Exchange rate (closing)—R\$ per U.S.\$1.00 | 2.3426 | | 2.0435 | | 1.8751 | |
| Average exchange rate—R\$ per U.S.\$1.00 (6) | 2.1741 | | 1.9550 | | 1.6738 | |

(1) Brazilian GDP for 2013, 2012 and 2011 was calculated using the new procedures adopted by the IBGE.

(2) Inflation (IGP-M) is the general market price index as measured by Fundação Getúlio Vargas, or FGV, and represents data accumulated over the 12 months in each year ended December 31, 2013, 2012 and 2011.

(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, 2013, 2012 and 2011.

(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: BNDES, Central Bank, FGV, and IBGE.

Exchange Rates

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

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Since 1999, the Central Bank has allowed the real/U.S. dollar exchange rate to float freely, and, since that time, the real/U.S. dollar exchange rate has fluctuated considerably. The real depreciated against the U.S. dollar by 15.7% in 2001 and 34.3% in 2002. Although the real appreciated by 22.3%, 8.8%, 13.4%, 9.5% and 20.7% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008, as a result of the international financial and economic crisis, the real depreciated against the U.S. dollar by 24.0%. In 2009 and 2010, the real appreciated against the U.S. dollar by 25.5% and 4.3%, respectively. In 2011, the real depreciated by 4.8% against the U.S. dollar. On December 31, 2011, the period-end real/U.S. dollar exchange rate was R\$1.8758 per U.S.\$1.00. In 2012, the real depreciated a further 8.94% against the U.S. dollar. On December 31, 2012, the period-end real/U.S. dollar exchange rate was R\$2.0435 per U.S.\$1.00. On December 31, 2013, the period-end real/U.S. dollar exchange rate was R\$2.3426 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.

| Year | Reais per U.S. dollar | | | Year End |
|------|-----------------------|--------|---------|----------|
| | High | Low | Average | |
| 2009 | 2.4218 | 1.7024 | 1.9935 | 1.7412 |
| 2010 | 1.8811 | 1.6554 | 1.7593 | 1.6662 |
| 2011 | 1.9016 | 1.5345 | 1.6746 | 1.8758 |
| 2012 | 2.1121 | 1.7024 | 1.9550 | 2.0435 |
| 2013 | 2.4169 | 1.9528 | 2.1603 | 2.3426 |

| Month | Reais per U.S. dollar | |
|-------------------------------|-----------------------|--------|
| | High | Low |
| October 2013 | 2.2123 | 2.1611 |
| November 2013 | 2.3362 | 2.2426 |
| December 2013 | 2.3817 | 2.3102 |
| January 2014 | 2.4397 | 2.3335 |
| February 2014 | 2.3245 | 2.4371 |
| March 2014 | 2.3675 | 2.2594 |
| April 2014 (through April 11) | 2.2811 | 2.1974 |

Source: Central Bank/Bloomberg

On April 11, 2014, the selling rate was R\$2.2059 to US\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at April 11, 2014 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.

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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.

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

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

- government policy and changes in the regulatory environment in Brazil;
- an increase in the number of competitors in the telecommunications industry that could affect our market share;
- increasing competition from global and local OTT players (operators such as mobile virtual network operators or branded resellers offering content and services on the Internet without owning their own proprietary telecommunications network infrastructure);
 - increased competition in our principal markets that could affect the prices we charge for our services;
 - our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide value-added services to encourage the use of our network;
- the introduction of transformative technologies that could cause a significant decrease in revenues for all mobile telephone carriers;
 - our ability to integrate acquired businesses and implement operational efficiency;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of uncertainties in credit and capital markets;
 - our ability to attract and retain qualified personnel;
 - our ability to integrate companies and assets that we acquire;

- the effect of exchange rate fluctuations;
- any difficulties we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weakness of our suppliers; and
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

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As a result of these uncertainties, there can be no assurance that our strategic objectives can effectively be attained in the manner and within the timeframes described.

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

The opening of the Brazilian market to competition for telecommunications services has adversely affected historical margins in the industry. We face increased competition throughout Brazil from new entrants in the personal communications service, or PCS, market. We compete with providers of wireless services and trunking and with providers of fixed-line telecommunications and Internet access services, because of the trend toward the convergence and substitution of mobile services for these and other services and a trend of bundling PCS with Internet and other services. As a result, the cost of maintaining our revenue share has increased and in the future we may incur higher advertising and other costs as we attempt to maintain or expand our market presence. Other than TIM, the following entities also hold authorizations to provide PCS with national coverage: Claro S.A., under the brand name Claro, Telefônica Brasil S.A., under the brand name Vivo, TNL PCS S.A. and 14 Brasil Telecom Celular S.A., under the brand name Oi and, recently, Nextel Telecomunicações Ltda., under the trade name Nextel, which is increasing its third generation mobile network, or 3G network, and existing trunking network.

We also expect to face increased competition from other wireless telecommunications services, such as digital trunking, or SME, because these services are generally less expensive than cellular telecommunications services and are subject to a different set of regulations. In addition, technological changes in the telecommunications field, such as the development and roll-out of third and fourth generations of mobile telecommunications network technology, or 3G and 4G, and Voice over Internet Protocol, or VOIP, are expected to introduce additional sources of competition.

Increased competition may increase our churn rate and could continue to adversely affect our market share and margins. Additional market consolidation may allow other telecommunications companies to compete more aggressively against us. Our ability to compete successfully will depend on the effectiveness of our marketing efforts and our ability to anticipate and respond to developments in the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. Additionally, we may face competitors with greater access to financial resources. We cannot predict which of many possible factors will be important in maintaining our competitive position or what expenditures will be required to develop and provide new technologies, products or services to our customers. If we are unable to compete successfully, our business, financial condition and results of operations will be materially adversely affected.

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 face difficulties responding to new telecommunications technologies.

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

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shorter time periods between the introduction of new telecommunication technologies and subsequent upgrades or replacements;

- the introduction of Long Term Evolution, or LTE, network layer and simultaneous management of multiple technology layers, such as Global System Mobile, or GSM, 3G and LTE through different spectrum bands which involves managing the LTE Radio Access Network, or RAN, sharing agreement between TIM and other mobile operator companies (see “Item 4. Information on the Company—B. Business Overview—Our Network”);

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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 700 MHz LTE bandwidth.

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

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

Our business as a mobile telecommunications services provider depends on our ability to maintain and expand our mobile 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;
 - continuous attention to service quality; and
- attracting, training and retaining qualified management, technical, customer relations, and sales personnel.

We believe that these requirements will place significant demand on our managerial, operational and financial resources. Failure to manage successfully our expected growth could reduce the quality of our services, with adverse effects on our business, financial condition and results of operations.

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

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

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure that we will be able to successfully operate and upgrade our information and processing systems or that they will continue to perform as expected. Any failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and results of operations.

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

Our subscriber acquisition rate can be negatively affected by overall market penetration. Additionally, our churn rates are mainly affected by price competition from our competitors and aggressive subsidization of handset sales, adverse macroeconomic conditions in Brazil and our strict policy of terminating customers who do not continue to use our services or do not pay their bills on time. Churn reflects the number of customers who terminate their service or have their service terminated during a period, expressed as a percentage of the simple average of customers at the beginning and end of the period. As indicated by historical churn rates, we may experience a high rate of customer turnover, which could increase our cost of operations and reduce our revenue. Several factors in addition to competitive

pressures could influence our subscriber acquisition rate and our churn rate, including limited network coverage, lack of reliable service and economic conditions in Brazil.

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

Telecom Italia S.p.A., or Telecom Italia, through its ownership of TIM Brasil Serviços e Participações S.A., or TIM Brasil, our controlling shareholder, has the ability to determine actions that require shareholder approval, including the election of a majority of our directors and, subject to Brazilian law, the payment of dividends and other distributions. Telecom Italia may pursue acquisitions, asset sales, joint ventures or financing arrangements or may pursue other objectives that conflict with the interests of other shareholders and which could adversely affect our business, financial condition and results of operations.

System failures could result in reduced user traffic and reduced revenue and could harm our reputation.

Our success largely depends on the continued and uninterrupted performance of our information technology network systems and of certain hardware. Our technical infrastructure (including our network infrastructure for mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our levels of customer satisfaction and our reputation.

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, 2013, we had approximately R\$5,069 million in consolidated outstanding indebtedness of which 37% was denominated in foreign currency (primarily U.S. dollars), for which we use derivative instruments to offset exposure to foreign currency. If we are unable to meet these debt service obligations, or comply with these debt covenants, we could be forced to restructure or refinance this indebtedness, seek additional equity capital or sell assets. Our net debt position in 2013 of R\$421 million (loans plus accrued interest and derivatives (liabilities), less cash and cash equivalents, derivatives (assets) and short term investments) means we should not need substantial funding to meet our obligations or to conduct our activities.

We are subject to numerous legal proceedings.

We and our subsidiaries are party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in losses and significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business.

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

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

The shareholding structure of our parent company, Telecom Italia, has undergone significant changes which has subjected us to increased government oversight.

On April 28, 2007, Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.p.A. and Telefónica S.A., or Telefónica, entered into an agreement to acquire the entire share capital of Olimpia S.p.A., or Olimpia, a company which, at the time, held approximately 18% of the voting capital of Telecom Italia, our indirect parent company. This acquisition was made through Telco S.p.A., or Telco. With the conclusion of the

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

In connection with the approval of the acquisition, through Act No. 68,276/2007, of October 31, 2007, Anatel imposed certain restrictions to guarantee the total segregation of the business and operations of Telefónica and TIM in Brazil, including, among other things, the obligation that the Telecom Italia group companies directly or indirectly involved in the Brazilian telecommunications sector present Anatel with copies of the minutes of the meetings of their respective boards of directors. On July 7, 2009, Anatel issued Act No. 3,804/2009, that considered accomplished some of the obligations imposed by Act No. 68,276/2007, as well as established other obligations related to the filing of minutes of meetings of the respective boards of directors of the companies which directly or indirectly operate in the Brazilian telecommunication market and minutes of the shareholders meetings in which directors are appointed. The companies in Brazil were also obligated to present information related to the execution of any agreements between companies under the shareholding control of Telefónica and Telecom Italia in connection with telecom services offered in Brazil and also copies of minutes of the meetings of their respective boards of directors in which these agreements are discussed. On November 8, 2011, Anatel issued a new decision (No. 9,403/2011) clarifying that, according to its interpretation of Act No. 68,276/2007, companies of the Telecom Italia group to which the restrictions were addressed are also obligated to present hard copies of the minutes of all meetings of the respective boards of directors to Anatel, regardless of whether or not the members of such body were appointed following direct or indirect nomination by Telefónica and whether or not matters concerning activities relating to the provision of telecommunications services in the Brazilian market were discussed. In order to ensure full compliance with such restrictions and also considering those clarifications provided by Anatel, some internal procedures were approved and adopted by each of the companies to which the restrictions were addressed, by means of a resolution of the applicable administrative body. Our Board of Directors approved such procedures at a meeting held on February 15, 2012. On April 28, 2010, as a condition for the approval of the aforementioned transaction, Telco shareholders executed a settlement agreement, or the TCD, with the Administrative Council for Economic Defense (Conselho Administrativo de Defesa Econômica), or CADE, which established additional rules regarding Telecom Italia's governance in relation to its activities in the Brazilian telecommunications market. TIM Brasil is the Intervening Party in the TCD. On December 26, 2012, as part of CADE's review and in view of the documents that had been submitted by each group since the TCD's approval, CADE's Attorney General issued a legal opinion that confirmed that most of TIM Brasil's obligations were duly satisfied, but required additional information in order to verify possible non-compliance. On December 4, 2013, CADE imposed a fine on TIM Brasil because the Company did not submit, for its review, an agreement executed with the Telefónica Group before the execution of the TCD. On December 16, 2013, TIM Brasil filed a request for clarification, which automatically suspended the obligation to pay the fine until the CADE provides the requested clarification.

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

Our operations depend to a significant extent on the ability of our customers to pay for our services. In the years ended December 31, 2013, 2012 and 2011, we made allowances for doubtful accounts in the amounts of R\$ 240.0 million, R\$250.9 million and R\$231.5 million, respectively, primarily due to defaults in payment by our customers. As a percentage of our gross revenue, our provisions for doubtful accounts amounted to 0.8%, 0.9% and 0.9% in the years ended December 31, 2013, 2012 and 2011, respectively. Under Anatel regulations, we are allowed to undertake certain measures to reduce customer defaults, such as restricting or limiting the services we provide to customers with a history of defaults. If we are unable to undertake measures to limit payment defaults by our subscribers or that allow us to accept new subscribers based on credit history, we will remain subject to outstanding uncollectible amounts, which could have an adverse effect on our results of operations.

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

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

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We depend on key suppliers.

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

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

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

Risks Relating to the Brazilian Telecommunications Industry

Anatel classified us as an economic group with significant market power in some markets and are now subject to increased regulation.

In July 2006, Anatel introduced the concept of significant market power in the industry and issued regulations regarding the fees that may be charged by personal mobile services providers with significant market power in the mobile interconnection market for the use of mobile networks. In November 2012, Anatel approved the General Plan for Competition Goals (Plano Geral de Metas de Competição), or PGMC, published by Anatel as Resolution No. 600 on November 12, 2012, which identified relevant markets susceptible of being regulated ex ante and established criteria for the evaluation of telecommunications providers to determine which providers have significant market power. Also in November 2012, Anatel classified us as belonging to economic groups with significant market power in the following relevant markets identified by the PGMC: (i) passive infrastructure in transport and access networks (provision of cellular towers); (ii) mobile network inbound calls (otherwise referred to as the mobile network termination market); and (iii) national roaming.

Due to such classification, we are now subject to increased regulation under the PGMC, which could have an adverse effect on our business financial condition and results of operations. Specifically, because we have been classified as having significant market power in the mobile network termination market, the rates charged by mobile service providers to other mobile service providers to terminate calls on their mobile networks (Valor de Uso de Rede Móvel), or VU-M, are regulated. VU-M mobile termination rates may currently be negotiated among operators with reference rates only applied by Anatel in case of dispute, and, beginning in 2016, VU-M reference rates are expected to be determined on the basis of costs. Moreover, because of our classification as having significant market power in the national roaming market, we must offer roaming services to other mobile providers without significant market power at the lowest tariff rate in the market. We are also required to provide other providers without significant market power access to our towers and masts due to our classification as having significant market power in that portion of the passive infrastructure market.

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 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 (later merged into TIM Celular), 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 Anatel levying fees against TIM Celular.

We cannot assure that we will be able to fully comply with each of the applicable laws, regulations and authorizations or that we will be able to comply with future changes in the laws and regulations to which we are subject. These regulatory developments or our failure to comply with them could have a material adverse effect on our business, financial condition and results of operations.

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

Our business is subject to extensive government regulation, including any changes that may occur during the period of our authorization 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.

The Brazilian government under certain circumstances may terminate our authorizations 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 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 and are renewable for one additional 15-year period, requiring payment at every two-year period equal to 2% of the prior year's revenue net of taxes, by way of investment under the Basic and Alternative Service Plans, which are intended to increase telecommunications penetration throughout Brazil. Anatel has stated that the revenue on which the 2% payment is based should be calculated as including revenues derived from interconnection as well as additional facilities and conveniences. As a result, we are currently disputing these radio frequency authorization renewal payments both administratively and judicially.

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

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

The telecommunications industry is subject to rapid and significant technological changes, including, for example, the introduction of 3G and 4G mobile telephone services. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

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

In addition to competitive pressures, as a result of the increasing substitution of data services in place of traditional voice and short message service, or SMS, communications, our traditional voice and SMS markets also have been decreasing and are expected to continue to decrease due to increasing competition from alternative modes of telecommunications.

We face increasing competition from non-traditional data services on new voice and messaging over the Internet technologies, in particular over-the-top (OTT) applications, such as Skype, Google Talk, FaceTime and WhatsApp. These applications are often free of charge, other than for data usage, accessible via smartphones, tablets and computers and allow their users to have access to potentially unlimited messaging and voice services over the Internet, bypassing more expensive traditional voice and messaging services such as SMS, which have historically been a source of significant revenues for mobile network operators such as us. With the growing use of smartphones, tablets and computers in Brazil, an increasing number of customers are using OTT application services in substitution for traditional voice or SMS communications.

Historically, we have generated a substantial portion of our revenues from voice and SMS services, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on our revenues and profitability. As a result of these and other factors, we face a mobile market in which price pressure has been increasing.

All mobile network operators, including ourselves, are currently competing with OTT application providers who leverage on existing infrastructures and who generally do not operate capital-intensive business models associated with traditional mobile network operators like us. OTT application service providers have recently become more sophisticated competitors, and technological developments have led to a significant improvement in the quality of

service, in particular speech quality, delivered via data communications applications such as OTT. In addition, players with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT application services. In the long term, if non-traditional mobile voice and data services or similar services continue to increase in popularity, as they are expected to do, and if we and other mobile network operators are not able to address this competition, this could contribute to further declines in average revenue per user, or ARPU, and lower margins across many of our products and services, thereby having a material adverse effect on our business, results of operations, financial condition and prospects.

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

Our business exposes us to a variety of lawsuits brought by or on behalf of consumers in the ordinary course of our operations as a mobile telecommunications provider in Brazil. We are subject to a number of public civil actions and class actions that have been brought against mobile telecommunications providers in Brazil relating principally to the expiration of prepaid usage credits, minimum term clauses, subscription fees and the use of land to install our network sites. These suits include claims contesting certain aspects of the fee structure of our prepaid and postpaid plans which are commonplace in the Brazilian telecommunications industry. As of December 31, 2013, we are subject to 77,316 consumer claims filed at the judicial and administrative levels. The aggregate contingency value of these claims is R\$593 million.

In addition, federal, state and municipal tax authorities have questioned some tax procedures we have adopted, emphasizing the issues related to our tax planning strategies as well as questions regarding the calculation of the basis for certain sector-specific contributions (FUST and FUNTTEL, as each are defined in “Item 4. Information on the Company—B. Business Overview—Taxes on Telecommunications Goods and Services”). As of December 31, 2013, we are subject to approximately 2,228 tax-related lawsuits and administrative proceedings with an aggregate value of approximately R\$7.8 billion, including risks related to lawsuits classified as probable and possible loss. Although many of these claims relate to general business practices in the Brazilian mobile telecommunications industry, adverse determinations could have an adverse effect on our business practices and results of operations.

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

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

Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business, financial condition and results of operation. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. On July 2, 2002, Anatel published Resolution No. 303 that limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz. In 2009, the Brazilian government enacted Law No. 11.934 establishing limits related to the magnetic and electromagnetic emissions to be as defined by the World Health Organization and requiring that operators had to maintain a record of the measurements of the levels of the magnetic and electromagnetic emissions of each transmitting station. The records must be five years old at most. Any of these or any other additional regulations could adversely affect our business, financial condition and results of operations.

The new index applied for the remuneration for the use of PCS networks may not be adequate.

Since 2006, Anatel uses Telecommunications Service Index (Índice de Serviços de Telecomunicações), or IST, to adjust rates received by Intelig for Fixed Switched Telephone Services, or STFC, rates and Industrial Exploration of Dedicated Lines (Exploração Industrial de Linha Dedicada) or EILD, and remuneration for the use of PCS, which substitutes the General Price Index (Índice Geral de Preços Disponibilidade Interna), or the IGP-DI, an inflation index developed by the FGV, a private Brazilian foundation. Thus, the prices we may charge for our services may be indirectly impacted by this index. Anatel intends 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. In 2013, the IST presented a much smaller variation than the IGP-DI.

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

Anatel issued new regulations on interconnection rules from 1997 to 2012, some of which could have an adverse effect on our results. The rules that may adversely affect our results are (1) Anatel had defined clearly that the same PCS provider with different authorization areas may receive only one instead of two interconnection charges, or VU-M, for long distance calls originated and terminated in their networks, and (2) if the free-market negotiation of prices for mobile termination VU-M is not successful, Anatel (i) would apply, in 2012 and 2013, Resolution 576, which contemplates a reduction of approximately 18% and 12% in 2012 and 2013, respectively, over the mobile interconnection rate; and (ii) will apply Resolution 600 from 2014 to 2016, according to which the VU-M reference rates of the operators with significant market power in 2014 will be 75% of the valid VU-M in 2013, and in 2015 will be 50% of the valid VU-M in 2013. From February 2016 on, Anatel proposes a fully allocated cost model for reference rates by allocating the various service costs to determine a basic price. Final rules regarding these prices are still pending. These regulations can have an adverse effect on our results of operations because (1) our interconnection charges would likely continue to drop significantly, thereby reducing our revenues, and (2) Anatel may allow more favorable prices for operators without significant market power.

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

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. The rules established there could be two types of MVNOs. The first type of MVNO are those with a business model to 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. The second type is a full MVNO with an authorization that permitted the provision of services based on a sharing of infrastructure agreement with an established mobile operator.

We were the first mobile operator to negotiate a contract with a virtual operator. The first contract to be submitted for Anatel's approval in December 2010 was for an authorization license in partnership with us. Our commercial partners have opted for the authorization license, which carries the obligations and responsibilities for providing the service. The contracts are negotiated on a case-by-case basis with the intention to build a specific solution for every new virtual operator.

The 4G auction rules brought an obligation to the acquiring operator to make a public offer of the purchased radiofrequency spectrum in the MVNO model. Increased competition from MVNOs could reduce our profitability and the profitability of the mobile telecommunications industry generally, reducing the capacity for investment and innovation. Such increased competition could have a material adverse effect on our results of operations.

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

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

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

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Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Brazilian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

Measures adopted by Anatel aiming to ensure service quality could have an adverse effect on our results.

In July 2012, with the express goal of improving the quality of mobile telecommunications services provided in Brazil, Anatel issued administrative injunctions suspending three of the primary mobile providers, including Claro and TIM Celular, from selling and activating new mobile service plans. Anatel lifted the suspension only after these providers made formal commitments to undertake specific investments related to the expansion of their respective networks and improvement of their respective services.

In November 2012, Anatel issued a new administrative injunction to suspend and stop our "Infinity Day" promotion, in which customers from specific states were charged per day of use for voice service to TIM numbers and local fixed telephones. Anatel, in its preliminary analysis, considered the promotion to be potentially harmful to the quality of our mobile services. The injunction was revoked in January 2013, after Anatel determined that the promotion did not pose a risk to the provision of our mobile services.

Although measures adopted by Anatel such as the aforementioned are likely to be temporary, such measures may, along with any new measures adopted in the future, have a material adverse effect on our financial condition, results of operations and cash flow and may limit our ability to implement our business strategy.

Risks Relating to Brazil

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

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

- fluctuating exchange rates;
- inflation;
- interest rates;
- monetary policy;
- changes in tax regimes;

- liquidity in domestic capital and credit markets;
 - fiscal policy;
 - political instability;
- reductions in salaries or income levels;
- rising unemployment rates;

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

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

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

Tax reforms may affect our prices.

In 2010, the Brazilian government increased the tax on financial operations, or IOF, rate on foreign investments in fixed income securities from 2% to 4%. This tax increase was intended to decrease speculation on Brazilian markets and reduce the volatility of appreciation of the real, reinforcing official efforts to discourage foreign investment by increasing transaction costs. In 2011, the IOF tax was expanded to tax loans entered into by banks and companies outside of Brazil with a maturity of less than 360 days. Additionally, the IOF tax rate related to exchange currency increased from 0% to 0.38%, with certain exceptions. Effective as of December 1, 2011, currency exchange transactions carried out for the inflow of funds to Brazil for investments made by a foreign investor (including a holder of ADSs that is non-resident in Brazil, as applicable) are subject to IOF/Exchange tax at a 0% rate in the case of variable income transactions carried out on Brazilian stock, futures and commodities exchanges, as well as in the acquisitions of shares of Brazilian publicly-held companies in public offerings or subscription of shares related to capital contributions, provided that the company has registered its shares for trading in the stock exchange. As of June 5, 2013, this beneficial tax treatment was extended to all investment made under the rules of CMN Resolution No. 2,689 in the Brazilian financial and capital markets, including an investment in our common shares. The IOF tax rate related to international loans entered into in Brazil by foreign banks and companies remained at 6% in 2012, however maturity was increased from 360 to 1800 days (approximately 5 years), and subsequently reduced to 720 days and later to 360 days in an effort to manage the flow of foreign capital entering Brazil through offshore loans. In 2013, the Brazilian government maintained the IOF tax rate on international loans at 6% and the maturity at 360 days.

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.

According to the General Market Price Index (Índice Geral de Preços do Mercado, or IGP-M), a general price inflation index developed by FGV, the inflation rates in Brazil were 1.2% in 2005, 3.8% in 2006, 7.8% in 2007, 9.8% in 2008, negative 1.72% in 2009, 11.32% in 2010, 5.10% in 2011, 7.81% in 2012 and 5.51% in 2013. In addition,

according to the National Extended Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA), published by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, or IBGE), the Brazilian consumer price inflation rates were, 5.7% in 2005, 3.1% in 2006, 4.6% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012 and 5.9% in 2013. 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

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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. If inflation rises, families' disposable income may decrease in real terms, leading to lack of purchasing power among our customer base. 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. Inflation also directly impacts our results of operations because certain of our assets and liabilities are subject to inflation. In addition, higher inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. Any decline in our net sales or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our shares and the ADSs.

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

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the real depreciated against the U.S. dollar by 15.7% in 2001, 34.3% in 2002, 32% in 2008, 4.8% in 2011, 8.94% in 2012 and 14.64% in 2013. Notwithstanding the fact that the real has appreciated 11.5%, 8.7%, 25.4%, and 4.3% in 2006, 2007, 2009 and 2010, respectively, there can be no guarantees as to whether the real will depreciate or appreciate against the U.S. dollar in the future.

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

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

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

The Central Bank establishes the basic interest rate target (the SELIC rate) for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic

indicators. The SELIC rate was revised, positively and negatively, during 2011 and was 11.00% as of December 31, 2011. In 2012, the Central Bank undertook a systematic easing of monetary policy in an effort to stimulate growth. The SELIC rate was cut throughout 2012, reaching a low of 7.25% on October 10, 2012, where it remained until April 17, 2013, after which it was repeatedly revised upward. As of December 31, 2013, the SELIC rate was 10.00%.

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At December 31, 2013, 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, including R\$1,935 million tied to the Long-Term Interest Rate (Taxa de Juros de Longo Prazo), or TJLP, R\$2,135 million tied to 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, and R\$116 million tied to UMIPCA (Unidade Monetária IPCA do BNDES) and R\$681 million tied to fixed 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. Nevertheless, the Company invests its cash in CDI, which can absorb part of the financial expenses impact.

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

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

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

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

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

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

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

Risks Relating to Our Commons Shares and the ADSs

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

Under Brazilian law, only shareholders registered as such in our corporate books may attend shareholders' meetings. All common shares underlying our ADSs are registered in the name of the depositary. A holder of ADSs, accordingly,

is not entitled to attend shareholders' meetings. Holders of our ADSs may exercise their limited voting rights with respect to our common shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights

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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 depository following our notice to the ADR depository requesting the ADR depository to do so. To exercise their voting rights, ADS holders must instruct the ADR depository on a timely basis. This voting process will take longer for ADS holders than for direct holders of our shares.

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

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

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our ADSs or common shares in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether to file such a registration statement. We cannot assure holders of our ADSs or common shares in the United States that we will file a registration statement with the SEC to allow them to participate in a preemptive rights offering. As a result, the equity interest of those holders in us may be diluted proportionately.

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

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

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

Investment in securities traded in emerging markets such as Brazil often involves more risk than other world markets, given the track record of economic instability and constant changes. The Brazilian stock market is significantly smaller, less liquid and more concentrated, compared to the world's major stock market. At December 30, 2013, BM&FBOVESPA's market capitalization was approximately R\$2.41 trillion (U.S.\$ 1.02 trillion). The Brazilian capital market shows significant concentration. The top five shares in terms of trading volume accounted for approximately 26.91% of all shares traded on the BM&FBOVESPA in the year ended December 31, 2013. These characteristics of the Brazilian capital market may substantially limit the ability of investors to sell shares at the

desired price and time, which may materially and adversely affect share prices.

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

All of our shareholders have the ability, subject to applicable Brazilian laws and regulations and applicable securities laws in the relevant jurisdictions, to sell our shares and ADSs. We cannot predict what effect, if any,

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future sales of our shares or ADSs may have on the market price of our shares or ADSs. Future sales of substantial amounts of such shares or ADSs, or the perception that such sales could occur, could adversely affect the market prices of our shares or ADSs.

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

According to Article 26 of Law No. 10,833 of December 29, 2003, which came into force on February 1, 2004, capital gains realized on the disposition of assets located in Brazil by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil at a rate of 15%, or 25% if realized by investors resident in a “tax haven” jurisdiction (i.e., a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20%). Although we believe that the ADSs will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, considering the general and unclear scope of Law 10,833 and the absence of any judicial guidance in respect thereof, we are unable to predict whether such interpretation will ultimately prevail in the Brazilian courts. See “Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations.”

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

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

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

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.

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Item 4. Information on the Company

A. History and Development of the Company

Basic Information

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

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

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

Historical Background

Our indirect controlling shareholder, Telecom Italia, began operating in Brazil in 1998 and through us is currently a leading wireless operator in the country. In the 2001 auctions held by Anatel for cellular frequency Bands D and E, Telecom Italia was the only company to be awarded licenses covering the entirety of the Brazilian territory, which at the time made Telecom Italia the sole operator to offer services on a nationwide level under the same brand. In 2002, Telecom Italia (then Telecom Italia Mobile) formed TIM Brasil, the holding company of Telecom Italia's operating companies in Brazil.

Prior to the incorporation of Telebrás, the Brazilian state-owned telecommunications monopoly, 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 privatized Telebrás and established Anatel as an independent regulatory agency. In connection with the privatization, Telebrás was broken up, or the Breakup, into 12 new holding companies, or the New Holding Companies, that consisted of

- eight cellular telecommunications service providers, each operating in one of ten regions, each a Cellular Region;
- three fixed-line telecommunications service providers, each providing local service and intraregional long distance service in one of three regions, each a Fixed-Line Region; and
- Embratel Participações S.A., or 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, or Band A, each serviced by one of the New Holding Companies operating in the cellular telecommunications business. In addition, under the General Telecommunications Law, the federal government granted authorizations to new companies to provide cellular telecommunications service within a 25 MHz sub-band within the band of 800 to 850 MHz, which is referred to as Band B. Companies operating under the Band B were distributed throughout ten different regions, which generally overlap with the Band A regions. Anatel's rules at the time prevented the controlling shareholders of Band A and Band B cellular service providers from holding more than

one license, either in the form of an authorization or a concession, in a single PCS region and as a result, some companies controlled by Telecom Italia waived their rights to provide PCS services in certain areas.

In July 1998, the Federal Government sold substantially all its shares of the New Holding Companies, including its shares of Tele Sudeste Celular Participações S.A., or TSU, and Tele Nordeste Celular Participações S.A., or

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

In 2011, our shareholders approved our adherence to the Novo Mercado rules and the transfer of trading of the shares issued by us to the Novo Mercado. In order to join the Novo Mercado, we entered into a Novo Mercado Participation Agreement with the BM&FBOVESPA. Through this agreement, which became effective on July 27, 2011, we are required to adhere to heightened requirements relating to corporate governance and the disclosure of information to the market. Additionally, as of such date, our shares started trading on the Novo Mercado segment of the BM&FBOVESPA. Pursuant to the Novo Mercado Regulations, we are not permitted to issue preferred shares, participation bonuses or any kind of shares with restricted voting rights. As part of our migration to the Novo Mercado listing segment of the BM&FBOVESPA, our preferred shares ceased to trade on August 2, 2011. On August 4, 2011, our ADSs representing preferred shares ceased to trade on the NYSE. From August 3, 2011, we only had common shares traded on the Novo Mercado listing segment of BM&FBOVESPA, by using the code “TIMP3” and as from August 5, 2011, our ADSs representing five common shares instead of ten preferred shares commenced trading on the NYSE. See “Item 9. The Offer and Listing—A. Offer and Listing Details.”

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

In accordance with the reorganization of TIM Fiber, on August 29, 2012, TIM Fiber RJ and TIM Fiber SP were merged into TIM Celular. The purpose of this reorganization was to simplify our organizational structure and improve the administrative, operational and financial efficiency of the companies controlled by us.

2013 Important Events

2013 mobile market developments

According to Anatel, the Brazilian mobile market reached 271.1 million lines nationwide at the end of 2013, corresponding to a penetration ratio of 136.4%, compared to 132.8% in 2012, for an annual growth rate of 3.5%, compared to 8.1% in 2012. 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. The prepaid customer base at 211.6 million lines continues to represent the greatest share of the total subscriber base, growing 0.3% in 2013 and constituting 78.0% of the mobile market. The postpaid business reached 59.5 million lines in 2013, a 16.9% increase over 2012. Growth factors for both sectors include increased access to credit and an expansion of the Brazilian middle class.

Capital Expenditures

Our main capital expenditure in 2011 was the AES Atimus Acquisition whereby we acquired the companies that now constitute TIM Celular (formerly TIM Fiber) for a total purchase price of R\$1,521.7 million. Other capital expenditures in 2011 were also focused on development of our network infrastructure. Our principal capital expenditures in 2012 related to network infrastructure and information technology systems focused on improving

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the quality of our services throughout Brazil. Other capital expenditures in 2012 related to the acquisition of 4G licenses and the funding of other organic projects focused on the development of our network infrastructure.

In 2013, our Board of Directors approved our budget for capital expenditures, which estimated expenditures of R\$3.6 billion for 2013, or 13% of our total gross revenues. Most of the capital expenditures we budgeted relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure.

Our principal capital expenditures in 2013 related to network infrastructure and information technology systems focused on improving the quality of our services. In 2013, in response to Anatel's requirements that we enhance the quality of services provided, we remained committed to make heavy network investments over the next several years. In 2013, we delivered major infrastructure projects in 39 cities throughout Brazil. According to a network improvement plan we presented to Anatel in 2012, we anticipate infrastructure investments to reach approximately R\$9.6 billion between 2012 and 2014, with a focus on infrastructure and quality improvements, including projects to (i) increase our network, with an anticipated 33% growth in 3G antennas and 8,000 kilometers of new fiber optic cables by 2014, (ii) optimize network utilization, including adjustments for enhancing signal quality in current coverage areas; and (iii) address map network interruption and failure causes, in addition to implementing solutions to prevent such events, ensuring the quality of calls and data connections, and increasing users' accessibility.

Other capital expenditures in 2013 related to the funding of other organic projects focused on the development of our network infrastructure, such as building long-distance networks and establishing our metropolitan fiber optic cable network and through increased coverage and capacity. Our principle source of funds for capital expenditures is cash from operations.

During 2014, 2015 and 2016, we expect to consolidate our position as the leading mobile telecommunications operator in infrastructure investments, based on public capital expenditure data reported by other operators. Our capital expenditures are based on commercial, technical and economic factors such as service rates, service demand, price and availability of equipment. There is no assurance that our estimates of such commercial, technical and economic factors will prove to be correct, or that we will actually spend our planned capital expenditures in future periods.

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, 2013, there were approximately 271.1 million mobile lines, representing approximately 136.4% of the population, compared to approximately 261.8 and 242.2 million mobile lines representing approximately 132.8% and 123.9% of the population in 2012 and 2011.

Although the industry has benefited from the increased purchasing power of Brazil's less affluent population, market focus remains on the more affluent cities clustered in the south and southeast of the country.

As is the case throughout most of Latin America, the Brazilian mobile telecommunications market is characterized by a large number of prepaid customers. According to Anatel, at the end of 2011, 2012 and 2013, approximately 81.8%, 80.5% and 78.0%, respectively, of mobile lines were prepaid and 18.2%, 19.5% and 22.0%, respectively, were postpaid. The postpaid business reached 59.5 million lines in 2013, an annual expansion of 16.9%. The average monthly revenue per mobile customer in Brazil was approximately R\$21.1 for the year ended December 31, 2011,

R\$19.8 for the year ended December 31, 2012 and R\$20.1 for the year ended December 31, 2013.

Our Business

We are the second largest provider of mobile telecommunication services in Brazil based on the number of phone lines, with 73.4 million lines and a market share of 27.1%, based on data from Anatel. In the year ended December 31, 2013, we added 3.1 million net lines, a decrease of approximately 51.8% compared to net additions in the year ended December 31, 2012.

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Through our subsidiaries in various telecommunications markets throughout Brazil, we operate mobile, fixed and long distance telephony, data transmission and Internet services. For the year ended December 31, 2013, our gross service revenue was R\$25.0 billion, a 2.9% increase from the year ended December 31, 2012, following a 9.6% increase in gross service revenue from 2011 to 2012.

Through our GSM network, we serve approximately 95% of the urban population of Brazil, representing the largest GSM network coverage of any mobile telecommunications services provider in Brazil (based on publicly available data of other mobile telecommunications providers), with a presence in approximately 3,404 municipalities. We offer extensive data coverage throughout Brazil, with our general packet radio services technology, or GPRS, covering 100% of our coverage area and our EDGE technology reaching 94.8% of our coverage area, in addition to our sophisticated 3G network covering more than 78% of the urban population of Brazil. Our international roaming agreements include more than 450 networks available in over 200 countries. Our fiber network extends from northern to southern Brazil, with an extensive wide area network, or backbone, of approximately 47,000 kilometers, and metropolitan area networks, or backhaul. Our fiber optic network has a unique capacity to offer high quality ultra-broadband service, available through our Live TIM service in the Rio de Janeiro and São Paulo metropolitan regions. We continued throughout 2013 to expand the neighborhoods in Rio de Janeiro and São Paulo where our Live TIM service is available, and in May 2013, Live TIM received the Customer Service Innovation award from the magazine Global Telecom Business. We began in 2012 a major metropolitan fiber optic network expansion in 44 major Brazilian cities, which we anticipate will achieve approximately 50% total traffic by the end of 2014. This is a key project that will enable us to provide high performance data services including 4G technology. In 2013, we also continued to expand upon our long distance fiber optic network, delivering the first stage of the LT Amazonas project, a fiber optic backbone connecting major cities in the north of Brazil, one of Brazil's regions with the greatest lack of infrastructure. Fiber optics are particularly important in rural areas such as these because the signals that are transmitted through fiber experience less attenuation (loss of signal strength) and, therefore, can travel longer distances. In connection with the LT Amazonas project, we have entered into financial lease agreements for the right to use infrastructure with companies that operate transmission lines in Northern Brazil.

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

In 2013, as in 2012 and 2011, we invested more in our infrastructure than any other mobile telecommunications operator in Brazil, based on capital expenditure data reported by our competitors. We believe our net investments of approximately \$3.9 billion in 2013, a 2.8% increase over 2012 and of which approximately 90.1% went towards infrastructure, is indicative of our commitment to enhancing our ability to provide services of the highest quality and respond to the expected increasing demand in voice traffic in Brazil.

According to data submitted to Anatel, we will invest more in infrastructure than any other mobile telecommunications operator between 2012 and 2014. Between 2013 and 2015, we will invest R\$10.7 billion in Brazil, 90% of which will be directed toward infrastructure projects.

As of December 31, 2013, we had more than 11,000 points of sales through premium shops and dealers (exclusive or multi-brand) and consolidated partnerships with large retail chains. In addition to these retail outlets, our customers have access to prepaid phone services through supermarkets, newsstands and other small retailers as an alternative channel to access our products and services, totaling more than 430,000 points of sale spread throughout Brazil. This figure includes 163 of our own stores.

For the corporate market, we have more than 300 third party business partners focused on serving small and medium companies and a direct sales force team of 60 employees focused on large companies.

In order to serve our customer base of over 73 million customers, we maintain eight contact centers, four of our own and four outsourced, comprising more than 13,000 attendants. Moreover, we have continuously invested in alternative customer service channels, developing solutions based on interactive voice response, or IVR, and self-service and mobile applications for iOS and Android.

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Competitive Strengths

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

Strong and sustainable revenue and margin growth coupled with leadership in attracting customers. According to a marketing research survey conducted by Ipsos Institute in May 2013, we are viewed as one of the market leaders in terms of brand preference and innovation. We were also found to have the lowest churn rate among our competitors according to this study. In 2013, according to Anatel, we had 3.1 million net additions, reaching a client base of 73.4 million lines at year-end. In 2013, we obtained a 27.1% share of net additions, steady compared to our 32.0% share of net additions in 2012. In the prepaid business, we achieved 2.5% growth as compared with 2012, when we were already the market leader, and in the postpaid business, we achieved 14.6% growth.

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

We expanded our customer base by 9.7% on a pro-forma basis between December 31, 2011 and December 31, 2012 and by 4.3% between December 31, 2012 and December 31, 2013. During these periods, we increased our net operating revenue by 9.8% and 6.2%, respectively.

High quality services. According to Anatel, in 2013 we consolidated our favorable competitive position, maintaining the second position among mobile operators in Anatel’s Performance Service Index, or IDA, and substantially reduced the gap between the leader and us. This result demonstrates our ongoing commitment to providing our customers with the highest quality service and responding adequately to rising demand for services in Brazil. In 2013, our services were also set apart from other operators as having the fewest customer complaints with PROCON, the Brazilian consumer protection entity integrated in the National Information Integration System, or SINDEC. Moreover, Anatel announced in February 2014 that, between August and October 2013, we had the lowest index in general complaints per 1,000 users and the second-best index in complaints registered by customers.

Reinforcing our innovative DNA, in 2012 we debuted an unprecedented and pioneering website we call “Open Doors” which enables anyone on the web to monitor the services provided by us. The site reaffirms our commitment to transparency in the quality of service provided. Through this site it is possible to learn relevant information about our company, view a detailed coverage map and be updated with news about the telecommunication market. In the future, visitors will be able to browse tutorial videos about the specific services we offer. During the first year of its operation, more than 1.2 million “Open Door” user interactions were recorded. The “Open Doors” site also brings us into compliance with the action plan submitted to Anatel by enabling anyone to view the commitments we have undertaken in order to improve network quality. We furthered our commitment to transparency during 2013, through the launch of an application exclusively for journalists, TIM Press. The application was created with the objective of facilitating access to information about the company. TIM Press gives journalists access to press releases, staff notices, updated data and calendars with major company events, among other information.

During 2014, 2015 and 2016, we are expected to consolidate our position as the leading mobile telecommunications operator in infrastructure investments, based on public capital expenditure data reported by other operators. Such investments have been achieved organically, including through building long distance networks and establishing our metropolitan fiber optic cable network and through increased coverage and capacity (we achieved a 11% increase in

volume of TRXs installed, which is the network element responsible for adding traffic capacity to an antenna, and 2,440 new sites connected to fiber in December 2013 compared to December

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2012), as well as by means of inorganic growth, for example, through the acquisition of assets such as Intelig and AES Atimus (later known as TIM Fiber and now TIM Celular).

During the period from December 31, 2012 to December 31, 2013, we increased the capacity of our voice network by 23%, based on installed TRX. In this same period, our 3G network coverage grew by more than 41% in terms of the number of cities covered, reaching 78% of Brazil's urban population.

The acquisition of Intelig in 2009 expanded our network infrastructure by adding a 100% digital fiber optic network installed from northern to southern Brazil, totaling more than 500,000 kilometers of fiber optic cables, with an extensive wide area network (backbone) of approximately 15,000 kilometers and metropolitan area networks (backhaul) in Brazil's principal cities. In addition, we added to our network telephone exchanges and satellite stations, connecting to major networks and with capability in major international submarine cable systems. The AES Atimus Acquisition in 2011 positioned us well, relative to our competitors, to capture broadband Internet market share. In Rio de Janeiro and São Paulo, Brazil's two largest cities, the AES Atimus (later know as TIM Fiber and now TIM Celular) network is capable of reaching almost twice the network size of our competitors in these markets, with a total of 5,500 kilometers of fiber optic cable spread over Rio de Janeiro and São Paulo, available to approximately 550,000 businesses. Investing in fiber optics in this way allows us to provide high quality services to our customers.

Strong brand associated with innovation. We believe we have a strong brand and a reputation for innovation, having pioneered several product launches in Brazil, such as the introduction of pay-per-call offers in the Brazilian market (Infinity Pré), followed by a prepaid daily Internet package (Infinity Web), a combined daily package of Internet and text messages (Infinity Web + Torpedo) and many others. Our mobile phone plans, such as Infinity Pré and Liberty, have transformed the mobile telecommunications market in Brazil, in line with our strategy to increase voice traffic and long distance calls in Brazil and to accelerate the growing trend in the substitution of fixed-line telephone services for mobile telephone services. According to a marketing research survey with telephone users throughout Brazil conducted by Ipsos Institute in May 2013 which we commissioned, we are recognized as a market leader in terms of, among other attributes, brand preference and innovation.

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

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

In addition, we belong to a select group of companies comprising the portfolio of the Corporate Governance Index, the BM&FBOVESPA Tag Along Stock Index, and the Carbon Efficient Index, comprised of companies that have committed to adopt transparent practices with respect to their emissions of greenhouse gases. We are also part of the portfolio of the Corporate Sustainability Index of the BM&FBOVESPA, an index comprised of companies that have a

strong commitment to sustainability and social responsibility. In August 2013, we received for the second consecutive time the gold seal of GHG Protocol, the program of the Center for Sustainability Studies of the FGV, which aims to foster corporate responsibility with respect to greenhouse gas emissions.

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Highly qualified and experienced executives and controlling shareholder support. We have a team of highly qualified executives, widely recognized in the industry and possessing extensive experience in telecommunications markets in Europe and emerging countries. Our executive compensation policy seeks to align the interests of our executives with those of our shareholders, through variable compensation plans and stock options that reward good performance and the accomplishment of certain goals, as well as provide for improved executive retention.

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

Our Strategy

Our strategy includes:

Strengthening our customer base and improving our network. The Brazilian mobile telecommunications market has grown significantly in recent years. Despite observing a slower pace in 2013, we expect there is significant opportunity for growth mainly due to mobile Internet and machine to machine, or M2M, applications and due to organic growth of the voice customer base for traditional voice services.

Our growth strategy is mainly focused on addressing the potential for mobile Internet in the Brazilian market. We believe mobile operators are in a strong position to address the demand for broadband in Brazil because they provide flexible price plans (including the prepaid market) suitable to the majority of the Brazilian population. Mobile coverage is also more suitable for customers without broadband, especially in suburban areas, because of the lack of fixed infrastructure. In addition to providing affordability and coverage advantages, mobile operators appeal to the new cultural demand for Internet connectivity at all times and in all places.

In addition, our strategy also involves strengthening our existing customer base by offering exclusive products to existing customers and by improving the quality our network. We believe this strategy will allow us to strengthen customer loyalty without requiring us to incur higher costs, as increased traffic within our own network does not significantly increase our operational costs. We are also constantly seeking new customers through new marketing efforts and promotional initiatives.

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

In the voice market, this strategy has been successful in part due to the limited service offerings of other long distance carriers in Brazil and the acceleration of fixed-to-mobile substitution. We have become the market leader in the long distance telecommunications market based on our market share, which in 2007 amounted to 5.9% and by December 2013 exceeded 50%, according to Anatel. Fixed-to-mobile substitution is increasingly evident in the Brazilian market, as fixed telephony operators have experienced a decline in the number of users and revenue. Since we are primarily a mobile operator with robust network infrastructure, the impact of any reduction in the fixed telephony market does not impact our performance and we therefore encourage the acceleration of fixed-mobile substitution,

which in turn increases demand for our services.

Providing universal Internet access to our customer base. We intend to provide universal Internet access to all classes of our customer base, offering our prepaid and postpaid customers competitive data usage plans through wireless handsets or accessories. Our focus on increased data usage among our customers depends on our ability to effectively manage our handset and accessories sales, with primary focus on models that provide for quality Internet access at a low cost, such as webphones. Since it is our policy not to subsidize our customers' purchases of handsets

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and accessories, this approach has allowed us to offer our services at a highly competitive price, offer convenient payment methods, meet market demand and allow for opportunities for innovation. The result of this strategy can be seen in the increase of 35% of gross revenue earned from sales of handsets in the year ended December 31, 2013 compared to the corresponding period in 2012, and in the increase of 34.1% of gross revenue earned from sales of handsets in the year ended December 31, 2012 compared to the corresponding period in 2011.

Construction of a unique infrastructure network in the Brazilian market. We are committed to developing a robust network infrastructure capable of serving our expanding customer base and anticipating new trends and technologies in the industry. The development of this infrastructure requires both organic (planning and infrastructure development projects for the existing network) and inorganic (acquisitions) investments. As part of our strategy to focus our investments in infrastructure, we acquired Intelig in December 2009 to establish our own fiber optic network and develop automation projects and acquired the company formerly known as AES Atimus (later TIM Fiber and now TIM Celular) in 2011 to strengthen and expand our fiber optic network.

The acquisition of Intelig in 2009 added to our network infrastructure an entirely digital fiber optic network running from northern to southern Brazil, totaling more than 500,000 kilometers of fiber optic cables, with an extensive wide area network, or backbone, of approximately 15,000 kilometers to Brazil's principal cities. In addition, we added to our network telephone exchanges and satellite stations connecting to major networks and with capability in major international submarine cable systems. The AES Atimus Acquisition in 2011 positioned us well relative to our competitors to capture broadband Internet market share. In Rio de Janeiro and São Paulo, Brazil's two largest cities, the AES Atimus (later known as TIM Fiber and now TIM Celular) network is capable of reaching almost twice the network size of our competitors in these markets, with a total of 5,500 kilometers of fiber optic cable spread over Rio de Janeiro and São Paulo, available to approximately 550,000 businesses.

As of December 31, 2013 as compared to December 31, 2012, we achieved an 11% increase in volume of TRX, the network element responsible for adding traffic capacity to an antenna, installed and had 2440 new sites connected to fiber optics. During the period from December 31, 2012 to December 31, 2013, we increased the capacity of our voice network by 23% based on installed TRX. In this same period, our 3G network coverage grew by more than 41% in terms of the number of cities covered, reaching 78% of Brazil's urban population.

Our zero-subsidy handset policy further supports our strategy to invest in infrastructure because it frees up capital expenditures for spending on infrastructure. We believe that the implementation of our zero-subsidy policy between 2009 and 2010 has given us a significant competitive advantage compared to other mobile telecommunications operators in the marketplace. We plan to continue to invest in infrastructure in coming years, with an estimated capital expenditures budget for 2014 through 2016 of approximately R\$10.4 billion, which does not consider 4G licenses. We believe the construction of a differentiated network is an effective strategy for sustained growth as evidenced by our leadership position in the provision quality services as measured by Anatel, even our customer base has grown significantly in the past two years.

In 2013, we carried out this strategy through ongoing investments in projects that will continue to differentiate and strengthen our network, such as the construction of new fiber optic networks in the north and northeast of Brazil. In 2013, we delivered major infrastructure projects in 39 cities throughout Brazil. We launched the Mobile BroadBand, or MBB, project, improving data transmission for mobile broadband users through an expanded high-speed fiber optic network and new functionalities in the core network and access network.

Our commitment to providing improved, high-quality services is reflected by our R\$3.8 billion in investments in 2013, roughly 90.1% of which were in infrastructure. The amount invested exceeds by 2.8% the aggregate investments made in 2012, signaling that the Company is able to satisfy the need for continued investment in a naturally capital intensive sector. TIM is the Brazilian mobile operator expected to invest more than any other

between 2012 and 2014, according to data submitted to Anatel. Our infrastructure investment program is facilitated by our strategy to end handset subsidies and to allocate these savings toward infrastructure improvements.

In 2012, we created a process of information technology vendor management in order to improve the commitment of our suppliers. As a result of this new approach, we have experienced enhancements like: (i) better accountability of end-to-end of vendors on our business processes; (ii) better contractual conditions and savings due to the increase of volumes per vendor; (iii) vendor consolidation and specialization in specific platforms/processes, creating the opportunity for long term investments in such areas; and (iv) active contribution to transformation and simplification.

These processes were organized and improved through detailed rules such as the Projects Review Board and Investments, and the Function Points Productivity Contractual Auditing. This allowed us to achieve an excellent level of information technology governance, exemplified by better business contribution of each investment due to shared objectives and goals. As a result, we improved our efficacy and efficiency.

Aligning our business with rising incomes in Brazil. Brazilian demographics have changed substantially in recent years, with the growth in Classes C and D (as defined in Item 5. Operating and Financial Review and Prospects—D. Trend Information—Customer Base and Market Share) and the increase in average salaries in Brazil. Because we pioneered the use of unlimited service at a fixed price and we have emphasized increasing the use of

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voice and data, we believe we have an advantage over our competitors in accessing this demographic shift. In 2013, our net additions reached 3.1 million lines, or the equivalent of 33.3% of all new lines in the market, with significant concentration in Classes C and D. The volume of unit sales in the same period increased markedly due to the growth of handset and accessory use as an affordable alternative for Internet access for Classes C and D users. As evidence of this trend, mobile Internet devices represented almost 70% of our total sales in 2013.

Expansion into new businesses. In 2013, Live TIM became the leader in the residential ultra-broadband market (speeds of more than 34Mbps), with 43.9% of market share by December. Live TIM offers high quality ultra-broadband, with high-speed data connection up to 50 mbps downstream and 30 mbps upstream speeds, operating within Rio de Janeiro, Duque de Caxias and São Paulo, markets that accounted for 43.8% of Brazilian GDP in 2013.

In 2013, we had a base of 60,210 clients, covering 1,232 addressable households in 93 neighborhoods in the cities of São Paulo, Rio de Janeiro and Duque de Caxias, the latter being the city in which Live TIM has most expanded its operations this year. We will continue expanding our coverage in the states of Rio de Janeiro and São Paulo states throughout 2014, and continue expanding to other locations within the high demand Rio de Janeiro and São Paulo metropolitan areas.

Additionally, in order to capture business opportunities in the corporate telephony business, at the end of 2013, Live TIM launched two new corporate targeted products: Live TIM Dedicado, which provides dedicated IP access, and Live TIM Empresas, which provides SMB fixed ultra-broadband with a fixed IP address.

Regional Overview

We offer GSM telecommunications services with a national reach to 95% of the urban population, which is one of the most extensive GSM coverage areas in Brazil, with a presence in almost 3,404 municipalities. We also have 3G coverage available to approximately 78% of the urban population in Brazil. In addition, in 2013, we launched 4G technology in a total of 24 of Brazil's major cities, reaching 27% of urban population by the end of the year. The following map shows our coverage areas with the types of service available in each area.

The following table shows combined information regarding the Brazilian mobile telecommunications market and our customer base, coverage and related matters, at the dates indicated.

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| \ | As of or For the Year Ended December | | | | | |
|---|--------------------------------------|---|-------------|---|-------|---|
| | 2013 | | 31, 2012 | | 2011 | |
| Brazilian population(1) | 198.7 | | 197.2 | | 194.0 | |
| Total penetration(2)(3) | 136.4 | % | 132.8 | % | 123.9 | % |
| Brazilian subscribers | 271.1 | | 261.8 | | 242.2 | |
| National percentage subscriber growth | 3.5 | % | 8.1 | % | 19.4 | % |
| Population we cover(1)(6) | 176.8 | | 176.0 | | 184.0 | |
| Percentage of urban population we cover(4)(6) | 94.8 | % | 94.7 | % | 94.4 | % |
| Total number of our subscribers | 73.4 | | 70.4 | | 64.1 | |
| Our percentage growth in subscribers | 4.3 | % | 9.8 | % | 25.6 | % |
| Our percentage of postpaid customers | 16.7 | % | 15.2 | % | 14.5 | % |
| Our ARPU(5) | 18.6 | % | 19.1 | | 21.4 | |

(1) According to the information used by Anatel.

(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/IPC Maps.

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

(5) Average monthly revenue earned per TIM subscriber.

(6) Internal estimate.

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 “—PCS Regulation—Rate Regulation.” We charge different rates for our services, which vary according to the customer’s service plan. Per minute prices decrease as customers commit to purchasing more minutes per month. Prices can also vary depending on the type of call (for example, calls from other operators on fixed lines or calls outside of the network for mobile calls) or the location of the parties on a call.

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

We offer mobile services under a variety of rate plans to meet the needs of different customer classification, including our corporate customers. The rate plans are either postpaid, where the customer is billed monthly for the previous

month, or prepaid, where the customer pays in advance for a specified volume of use over a specified period.

Our postpaid plans include the following charges:

- monthly subscription charges, which usually include a number of minutes of use that are included in the monthly service charge;
- usage charges, for usage in excess of the specified number of minutes included in the monthly subscription charge; and
 - additional charges, including charges for value-added services and data services.

Certain plans include the cost of national roaming and long distance in the price per minute so that all calls within Brazil cost the same amount per minute. Some postpaid plans are designed for high and moderate usage

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subscribers, who are typically willing to pay higher monthly fees in exchange for minutes included in the monthly service charge while other plans are designed to satisfy the more limited needs of low-usage postpaid subscribers. We also offer customized services to our corporate clients, which may include local call rates between employees wherever located in Brazil.

We also offer several prepaid plans, none of which include monthly charges. Prepaid customers can purchase a prepaid credits plan that provides a specific amount of usage time and may receive additional services such as voicemail and caller identification. In 2013, we expanded our prepaid recharge stations by 27%. There are already over 336,000 recharge stations nationwide, offering an electronic recharge option. We have agreements with large national retail stores chains, in addition to partnerships with regional retail stores chains, to offer online recharge. Customers can also recharge straight from their mobile handsets using credit cards such as Visa, MasterCard or Diners Club.

Consumer Plans

We have continued to build upon the strength of our leading market position in voice traffic in our product offerings to consumers, focusing on our Infinity and Liberty calling plans which we believe reinforce the strength of the TIM network by relying on the favorable calling options for the 73 million lines within our network. Within the consumer business, our main plans include:

- Infinity (prepaid): the customer is charged per call of unlimited duration to TIM numbers and local fixed telephones; for SMS and mobile Internet services, clients are charged for day of use;
- Infinity TRI (prepaid in Rio Grande do Sul): customers from Rio Grande do Sul are charged per day of use for voice (to TIM numbers and local fixed telephones), SMS and mobile Internet services;
- TIM Beta (prepaid): limited plan addressed to young consumers, charged per day for voice (to TIM numbers), SMS and mobile Internet services;
- Liberty: for a monthly flat fee, the customer has unlimited talk time with any number on the TIM network, with no restriction on the number or duration of calls. Also, they may add further advantages to this plan using the Liberty Rádios plan to talk unlimitedly to any radio user (SME), without deduction from its package of minutes;
- Liberty Controle: for a fixed rate every month, the customer has unlimited talk time with any number on the TIM network, and also receives bonuses related to other out of network calls and services;
- Liberty Web Light, Tablet, Modem and Modem Plus: post-paid plans that offer Internet access through dongles (or small pieces of hardware which enable additional functions such as copy protection, audio, video, games, data, or other services) and tablets, with possibility of repurchasing (as described in detail below); and
- Liberty Web Light Express, Tablet Express, Modem Express and Modem Plus Express: plans that offer Internet access through dongles and tablets, but with the payment by credit card, with possibility of repurchasing.

Repurchasing is an option provided in connection with our plans sold with certain data traffic limits (1 gigabyte, 3 gigabytes and 10 gigabytes, for example), after which limit navigation speeds are reduced. When the customer reaches that limit, they have three options: (a) continue browsing with reduced speed, (b) increase their data traffic limit by purchasing additional data, or (c) upgrade their contracted plan altogether. When a customer chooses either option (b) or (c), this generates additional revenues for the company.

In 2012, we continued to develop the Infinity and Liberty platforms, adding the Controle plan within the Liberty concept, boosting profitability of this product offering. The Controle plan has hybrid characteristics, combining aspects of the Liberty and Infinity plans, giving the customer the convenience of a postpaid plan while allowing customers to control expenses like a prepaid user. Within the Infinity platform, in 2012 we released the Torcedor program, an innovative approach adapted to the needs of soccer lovers. In November 2012, we brought further

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innovation to the Controle business line with Liberty Controle Express, an innovative offer combining Liberty Controle benefits with the convenience of payment by credit card, simplifying new customer adhesions and migration from our prepaid base into this business line. In 2013, we launched international roaming options for customers using the prepaid Controle and Liberty Express plans.

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

Throughout 2012, we increased the number of outlets through which our Infinity Pré and Infinity Controle customers can recharge their accounts. Since then, customers have been able to recharge their prepaid phones through our website. In 2012 we also added another means of recharge, the “Recargas TIM” android application, allowing Infinity Pré and Controle users to recharge more conveniently. In 2013, we continued to develop new solutions for top up that would best meet our customers’ needs. For example, we launched “Recarga Express,” which allows our clients to sign up with a credit card and then buy a top up using any of our channels, such as our website and mobile application. We also released a promotional top up allowing customers to top up for only R\$2 in exchange for unlimited network calls for two days.

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

- Infinity Pré, which consists of a promotional fixed R\$0.25 rate for calls to other TIM users;
 - Infinity Mais, which charges a fixed R\$0.60 rate to landlines;
- Infinity Web 10MB, which charges a fixed R\$0.60 rate for 10 megabytes of Internet access through cellphone per day of use to Infinity Pré, Infinity Controle, Liberty Controle and Liberty Controle Express customers; with possibility of repurchasing.
- Infinity Web 80MB, which charges a fixed R\$1.99 rate for 80 megabytes of Internet access through mobile phones, dongles and tablets per day of use to Infinity Pré, Infinity Controle, Liberty Controle and Liberty Controle Express customers;
 - Infinity Torpedo, which charges a fixed R\$0.60 rate for unlimited SMS per day of use;
- Infinity Web + Torpedo, which charges a fixed R\$0.75 rate for 10 megabytes of Internet access through mobile phones and unlimited SMS per day of use to Infinity Pré, Infinity Controle, Liberty Controle and Liberty Controle Express customers; with possibility of repurchasing (only through the web);
- Liberty+100, which offers competitive subscription rates for SIM-only customers, offering the same benefits as the standard Liberty plans plus 100 minutes for calls outside of the TIM network and unlimited calls for radio users;
- Liberty Web Smart, which offers Internet access for a fixed monthly flat fee only if the customer uses the service during the billing month; with possibility of repurchasing.
- Liberty Web 300MB, which charges a fixed rate of R\$21.90 per month for mobile phone Internet access for post-paid customers. This plan provides a less expensive monthly paid option for Internet access, with possibility of repurchasing.

- Liberty Web 600MB, Liberty Web 1GB and Liberty Web 3GB, which charges a fixed R\$19.90, R\$34.90 and R\$54.90 rate per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These plans provide new service options for certain users without Internet to complete their service portfolio and provide new pricing options for heavy users of data.

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- Liberty Web 50MB, which charges a fixed R\$14.90 rate per month, for mobile phone Internet access for post-paid customers, with possibility of repurchasing. This offer is only used as a retention offer for Internet users who want to cancel the service because of price issues and as an entry offer to stimulate usage by customers who currently do not use Internet.
- Liberty Express 600MB, Liberty Express 1GB and Liberty Express 3GB, which charge an additional fixed R\$34.90, R\$49.90 and R\$69.90 per month, respectively, for mobile phone Internet access for Liberty Express customers, with possibility of repurchasing. This is the same plan offered for Liberty customers, but with payment by credit card.
- Liberty Torpedo, which offers unlimited SMS to any operator at a fixed monthly rate, only payable in the month used.

In 2013, we maintained our SIM-only strategy, pursuant to which we offer discounts on services rather than subsidizing the handset purchase. We believe this allows us to offer differentiated services at competitive prices and make handsets available without providing them to customers for free.

Value Added Services

We are constantly seeking to increase value to our customers through innovative offers and products, and 2013 was no exception. Some changes in business model for value added services, such as new pricing and implementation strategies, were instrumental in increasing our profits and those of our partners.

Infinity Torcedor, a partnership with Mobile Segment Team, provides free content to our clients regarding their favorite Brazilian soccer team (Flamengo, Vasco, São Paulo, Palmeiras, Corinthians, Grêmio, Internacional, Bahia e Vitória), including daily news via SMS, goal scoring alerts, exclusive wallpapers and the team's official anthem for download.

In 2013, we created our own Mobile Learning platform containing the products TIM +Inglês e TIM +Espanhol. These products allow users to learn another language through SMS lessons, a mobile site and an IVR platform, making it possible for them to study anywhere and anytime. Each service costs R\$2.99 per week and the first seven days of use are free of charge.

In 2013, we created our own music access platform, TIMmusic, a free smartphone application with differentiated daily fee levels based on usage per day, all of which allow for unlimited downloading and listening. This innovative pricing model optimizes flexibility for our customers. In launching the application, TIM has partnered with record labels making millions of songs available to customers.

In our latest innovative promotion (TIM Clube de Prêmios), TIM held daily drawings from R\$3,000 to R\$200,000 and a single drawing of R\$420,000 at the end of the contest. Between free users and premium paid users, more than 10 million customers paid R\$0.99 per day to participate in this promotion. This promotion was even more successful than a similar promotion held in 2012.

In the last quarter of 2013, we launched Infinity Recado and Liberty Recado, new voice mail services where customers can both listen to and read their messages. Pre-paid customers pay a fixed price per day for usage and post-paid customers pay a fixed value per month only if they use the service.

In September 2013, we created the TIM PROTECT family, a range of safety services for the consumer. We initially launched three anti-thief and antivirus services: TIM Protect Antirroubo, an application that includes an anti-thief service, which helps the consumer to find his lost phone; TIM Protect Segurança, an Android application that protects

the customer's device against virus and general threats and also includes all the features of TIM Protect Antirroubo; and TIM Protect Segurança Computador, which is an anti-spy and antivirus software for PC and MAC. These services are charged as a monthly fee, starting at R\$3.90.

At the end of 2013, we added the TIM Protect Backup to the portfolio of TIM PROTECT safety services. TIM Protect Backup is a backup service that allows the consumer to keep their documents, songs, videos and other files in a server, better known as cloud, which keeps all these documents safe. The customer can have access to their files on any device or the web interface simply by installing the application on such device. We offer plans from 5GB for R\$5.90 per month, to 100GB for R\$29.90 per month.

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Business Plans

In 2013, we continued to enhance and differentiate our product offerings to our business clients, maintaining an emphasis on simplified service and transparency. We launched a number of new products and services based on the unique needs of our business clients. We also maintained our focus on the provision of Internet solutions, providing companies of all sizes with improved Internet connectivity. We continued to aggressively pursue larger companies as potential clients, offering, in addition to customized plan pricing, handset options under loan for use contracts.

In 2012, we launched our “Combo” offers, or offers of a range of service plans combined with free (comodato) or installment-based handsets to corporate customers, focusing particularly on handsets that encourage the use of Internet and value added services, such as smartphones, modems and tablets. Our Combo offers include entry level Combos such as Combo FIT, a package including Liberty Empresa +50 with two handset options under a loan for use contract. We continued our “Combo” strategy in 2013, expanding our Combo offers to include the option of minute-based plans. In 2013, we experienced a reduction in the gross and base share held by Liberty Empresa Zero plans, and a commensurate growth in the share held by the Liberty Empresa +50 and +100 plans, reflecting our clients’ preference for Combo plans with advantages over pure minute-based plans.

Tablet-based Combo offerings include the Liberty Web Empresa Tablet Plan, offered with the Samsung Galaxy Tab 2 7.0 and the new iPad 16GB with exclusive pricing, on some occasions also bundled with smartphone offers for even greater market appeal. We also launched an offer with the tablet Alcatel Evo 7, the lowest priced tablet on the market, making tablets more accessible to the corporate client. Such focus on tablets aims to encourage the greater use of value-added services, strengthens our innovative image and creates a strong connection between data services and the “TIM” brand in consumers’ minds. Our smartphone sales also benefitted from our “Combo” strategy, increasing substantially in 2012 and 2013.

In 2013, we launched Liberty Empresa Controle, a plan providing for a fixed monthly bill without additional charges. This fixed bill includes unlimited network calls and a certain amount of credit to use towards other telecom services, such as Internet, SMS and calls to other providers. When the client runs out of credit, he still has the benefit of unlimited in-network calls and the option of purchasing a top up for more credits. This plan allows companies to expand the use of mobile phones as a tool, while maintaining control of their expenses. Accordingly, the Liberty Empresa Controle plan has a strong appeal for companies seeking other alternatives, such as prepaid plans, for their telecommunications needs.

In addition to Liberty Empresa plans, we continue to offer Empresa Mundi plans, including packages with 100, 400 and 800 minutes, allowing our clients to talk at the same rate on local calls, national long distance and international long distance calls, offering these clients the option to choose the plan best suited to their needs.

The following presents a brief summary of certain key elements of our other business plans.

- Liberty Web Empresa Light, Tablet, Modem and Modem Plus: post-paid plans that offer Internet access through dongles and tablets, with possibility of repurchasing.
- Liberty Web Smart: plan that offers Internet access for a fixed monthly flat fee only if the customer uses the service during the billing month, with possibility of repurchasing.
- Liberty Web 20MB, 50MB, 100MB, 300MB, 600MB, 1GB and 3GB: plans that charge a fixed R\$6.90, R\$9.90, R\$14.90, R\$21.90, R\$ 34.90, R\$49.90 and R\$69.90 per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These plans provide new service options for certain users without Internet to complete their service portfolio and provide new pricing options for heavy users of data.

- Liberty Torpedo: plan that offers unlimited SMS to any operator at a fixed monthly rate, only payable in the month used.

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Sources of Revenue

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

| Category of Activity | Year ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| | (in millions of R\$) | | |
| Gross mobile telephone services | 25,065.2 | 24,350.1 | 22,217.3 |
| Gross sales of handsets and accessories | 4,596.5 | 3,405.7 | 2,540.5 |
| Total | 29,661.8 | 27,755.8 | 24,758.8 |

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

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

Monthly Subscription Charges

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

Network Usage Charges

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

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

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

- AD. AD is a per-call surcharge applicable to all outgoing calls or incoming calls made or received by a customer while outside such customer's home registration area.
- VU-M. Value of Use of Mobile Network (Valor de Uso de Rede Móvel), or VU-M, also known as an interconnection rate or mobile termination rate, 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.

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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 not covered by 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.

In conjunction with the approval of the PGMC, Anatel classified the four main national PCS providers as having significant market power in the national roaming market. As a result of such classification, TIM Celular, Claro, Vivo and Oi are required to submit reference offers at least every six months for Anatel’s approval and must offer roaming services to other mobile providers without significant market power at the lowest tariff rate in the market.

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 “—PCS Regulation—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 agreed to by Anatel, contemplating a 68.5% increase in the VU-M fee over the VC-1 adjustment for 2008. Accordingly, in 2008, mobile also received 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

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applicable adjustments in terms of financial agreements. In December, 2009, Anatel determined that we must have only three VU-Ms, according to the three authorization areas (PGA regions).

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

In November 2012, as part of the cost model transition, Anatel set out the 2014 mobile termination reference rate VU-M for operators with significant market power at 75% of the valid VU-M in 2013, and the 2015 reference rate VU-M at 50% of the valid VU-M in 2013. Based on that, in December 2013, VU-M prices for 2014 and 2015 were published in Resolution No. 600. Anatel should have released the cost modeling methods for 2016 onwards in 2013 as well, but did not. VU-M prices were to decline based on a glide path until the cost modeling known as LRIC+ Bottom Up is applied. However Anatel postponed this disclosure due to the need for major analysis on tariff figures. As previously noted, Anatel classified us as belonging to economic groups with significant market power in the mobile network termination market to which these cost models apply.

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.")

In 2012, the unification of the licenses 23 and 41 was concluded. The 23 customer base migrated to 41, thus making possible a single branded long distance operator for both mobile and fixed. Also in 2012, the Liberty Passport offer for voice and data was launched, which offers customers the innovative concept of unlimited use of Internet and voice services on five continents, paying a fixed value per day of use of each service (voice or data), simplifying the adhesion to our international roaming service, with extremely attractive values.

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

Value-added services represented 21.4% of our gross service revenues in 2013, 18.1% of our gross service revenues in 2012, 12.8% in 2011, 12.0% in 2010 and 2009, 9.7% in 2008 and 7.9% in 2007. We continued to experience growth in usage of these services in 2013, as illustrated by revenue growth from value-added services of 21.5% compared to 2012. We work with Telecom Italia, which makes substantial investment in developing new products, new technology and platforms, to evaluate the value-added services most prized by customers and to reduce implementation problems.

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

- **TIM CloudConnect:** an innovative solution for small and midsize companies, which will be offered at an accessible price and will enable file sharing, social collaboration and basic online CRM on a secure mobile platform with all of the features that managers and employees require to speed up communications and further improve customer relations. TIM CloudConnect is built entirely on a partnership with Salesforce, the world's leading cloud platform for social and mobile business apps.
- **TIM Radar:** a tracking services for all a company's devices which also permits the company to send unlimited SMS to employees to provide them with instructions, directions and other relevant messages. TIM Radar will, among others, help companies improve their deliveries and pick-ups.
- **InfoTIM:** a corporate SMS service, which allows corporate clients to send and receive SMS to their customer base through the TIM VAS Platform. InfoTIM is an Application to Peer, or A2P, service.
- **Gestor Web:** a control tool that enables our corporate clients to manage and control the voice access use of their employees through an exclusive area of the TIM website.

Data transmission: We also offer general packet radio services, or GPRS, to our postpaid and prepaid subscribers through our GSM network. GPRS/EDGE are non-voice value-added services that allow information to be sent and received across a mobile network. In 2008 we launched 3G/ High Speed Packet Access, or HSPA, services, which is a technology that enhances the portfolio of value-added services, with higher speed of downloads. We believe that 3G was an important milestone in our path towards achieving market leadership. In 2013, we launched the MBB program, which combines high capacity backhaul with advanced features of HSPA, such as HSPA+ and Dual Carrier, reaching up to 42Mbps per cell. In 2013, we partnered with Cisco and Celcote to improve network quality, particular with respect to data traffic. Initially, the project will be implemented in 21 cities in different regions of Brazil and is expected to be extended to the whole country during 2014. As part of the project, TIM will utilize Self-Organizing Network software, which optimizes connections between neighboring towers and improves transmission congestion. Pursuant to Law No. 11.934, tower sharing is mandatory when towers are separated by less than 500 meters unless otherwise excepted by Anatel. Also in 2013, we launched the latest 4G data transmission technology, Long Term Evolution, or LTE, at 2.5GHz spectrum. By December 2013, LTE was available in 24 cities (representing 27% of urban population), with a plan to reach at least 283 cities (representing 62% of urban population) by 2016. LTE allows the user to access the Internet at very high data speeds. The LTE network was built under an

innovative RAN sharing deal with another Brazilian mobile operator, which establishes that each operator is responsible for 50% of LTE coverage (see “Item 4. Information on the Company—B. Business Overview—Our Network”). This agreement brings significant savings in LTE construction and operation for both companies while keeping subscribers and services completely separate.

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Sales of Mobile Handsets

We offer a diverse portfolio of approximately 30 handset models from several manufacturers, including Apple, Samsung, LG, Nokia, BlackBerry, Motorola and Sony, for sale through our dealer network, which includes our own stores, exclusive franchises, authorized dealers and department stores. We are focused on offering an array of handsets, including essential and smartphones such as the iPhone and Samsung Galaxy devices with enhanced functionality for value-added services, including equipment that make 4G, 3G, Dual SIM, Near Field Communication, or NFC, Wi-Fi, Internet, Bluetooth, Camera and Email, while practicing a policy of zero subsidy and focusing on large volumes to gain market share in Brazil. Our mobile handsets can be used in conjunction with either our prepaid or postpaid service plans. At present, we believe that supplies of mobile handsets are sufficient to satisfy demand, but also plan to expand our mobile handset portfolio to new devices focused on the connectivity experience, such as routers, web and wearable devices.

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.

Financial Services

In 2013, we strengthened our activities in the financial service field through the development of partnerships and products for mobile banking, insurance, mobile payment, and “mobile money,” all of which strengthen our core business and provide additional sources of revenue generation. We have entered into financial services pilot projects in partnership with various financial institutions, including testing of NFC technologies in partnership with Mastercard, RedeCard and Gemalto and “mobile money” payments via mobile phones with Caixa Econômica Federal and MasterCard.

In May 2013, the Government enacted Provisional Measure No. 615, which was passed as Law No. 12,865 in October 2013, which provides that telecommunications operators may offer mobile payment services.

Mobile Theft Insurance

At the beginning of 2012, we launched TIM Insurance for Mobile Theft, our insurance product in partnership with Assurant Solutions. At first we launched the theft insurance exclusively through our virtual store, and were the first and still the only operator to offer mobile theft insurance through an online channel. We now also offer mobile theft insurance in our own stores and through telemarketing. The product allows our customers to protect themselves against the costs of mobile handset theft for monthly prices ranging from R\$6.49 to R\$18.49.

Award Winning Protection Insurance

We entered the low value insurance market targeting classes C and D through the launch of our award winning protection in July 2012, called “Proteção Premiada”. Proteção Premiada is a specific type of insurance that offers assistance services to crime victims, which includes reimbursement coverage for funeral expenses up to R\$1,000, and also raffles R\$500 per month. The award winning protection insurance costs R\$ 1.50 per month for our pre-paid Clients, debited directly from their credits.

In the second quarter of 2014, we plan to launch new products to complete our line of telecommunication insurances.

TIM Itaucard

The TIM Itaucard is our first payment product, a co-branded credit card in partnership with Itaú, which brings us an unprecedented relationship program based on Itaú's benefits platform. In 2013, our focus was to gain market share through telemarketing efforts. In 2014, we will turn our efforts to sales of the TIM Itaucard through our physical channels such as storefronts.

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Liberty Controle Express

In November 2012, with the idea of creating a postpaid plan that could be sold without the need for a credit assessment, a new Controle plan paid exclusively with a credit card was launched. The plan was launched with three distinct values of R\$18.00 for Rio Grande do Sul, and R\$28.00 and R\$48.00 for the rest of the country. The plan also can be acquired by self-service through our website, in addition to our owned stores.

Mobile Money

With a focus on developing a product for non-banking prepaid clients, we entered a partnership with the Caixa Econômica Federal and MasterCard to develop new payments options via mobile, in the “mobile money” format, a virtual version of a prepaid bank card associated with a mobile number. We hope to launch this product by the first half of 2014.

Sales and Marketing

Our recent sales and marketing strategy has been characterized by a renewed focus on postpaid products, of which we had approximately 7 million sales in 2013. In order to achieve this result, our sales and marketing particularly emphasized: (1) a focus on upsell opportunities for high-end prepaid customers with “Plano Controle”, a low-cost postpaid plan with a fixed monthly fee where outbound calls are permitted only upon a new top up, which represented 50% of our postpaid sales in 2013; (2) the introduction of “Plano Controle” in large retailers, which have historically been focused on prepaid sales; and (3) the opening of two new regional sales offices, one in Bahia and one in the interior of São Paulo, representing 7% and 12% of the total mobile market, respectively. The new offices allowed us to develop and execute specific sales strategies tailored to local needs.

In the prepaid market, we maintained a sales and marketing strategy focused on acquisition and reached 36 million sales in 2013. We launched an innovative offering, "Recarga Promocional", that allowed customers to top up their prepaid phones with only R\$ 2,00 (two reais), an amount referred as “top up change” in our offering communication.

For the corporate market, our sales and marketing strategy in 2013 focused on restructuring this business line and renewing 3.8% of the partnerships based on quality and financial key performance indicators. We will continue this strategy throughout 2014 in order to meet customer needs and achieve alignment with industry demands.

Our Network

Our wireless networks use only digital technologies, primarily GSM, and cover approximately 95% of the urban Brazilian population based on Anatel’s coverage criteria. During 2010, we started to move away from TDMA technology, migrating customers to the GSM system, promoting greater efficiency in terms of power consumption and discontinuing the use of TDMA in 2011. During 2008 we implemented 3G services within our network, which enable users to experience a higher level of connectivity with broadband Internet access. In December 2010 and in October 2011, we acquired additional bandwidth in the 1,800 MHz band. In order to move toward 4G services, in October 2012, we acquired additional bandwidth in the 2,530-2,540 MHz and 2,650-2,660 MHz sub-bands, with national coverage, and the 450 MHz band in Espírito Santo, Paraná, Rio de Janeiro and Santa Catarina states. As part of regulatory commitments, we established 4G technology coverage in six cities by April 2013. As of December 2013, we provided 4G coverage to approximately 27% of the urban population of Brazil, including 19 capital cities. According to Anatel, in December 2013, we were second in the market by 4G access, with 30,8% of total access. Attending to these coverage commitments demands heavy capital investments and a commitment to acquire products with national technology. A significant portion of the Company’s capital expenditures between 2014 and 2016 will be dedicated to investment in 4G networks. We view the purchase of any frequency made available by

Anatel for the provision of mobile services as a priority since having available frequency is core to our business. In 2013, we made R\$2.8 billion in investments to improve our network infrastructure, primarily in infrastructure reinforcement, expansion and capacity enhancement of optical transport network, 3G network expansion and feature enhancement (new features, enabling MBB program), deploying of 4G network, quality maintenance and improvement and GSM capacity increase.

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Our wireless network principally includes transport and computer equipment, as well as exchange and transmission equipment, consisting primarily of switches, 12,473 BTS in our GSM network and 9,074 B nodes as of December 2013. The network is connected primarily by IP radio links and fiber optic transmission systems from the recently acquired Intelig network. The remaining sites are connected by leased lines. Nokia Siemens Networks, Ericsson and Huawei are our main suppliers for GSM and 3G equipment.

We will continue investing in high performance MBB. By the end of 2013, we delivered important infrastructure projects for the benefit of MBB users, including improvements in data transmission which in turn improve MBB performance, high-speed optical fibers, radio access upgrades and implementation of new functionalities in the network core. By the end of 2013, 39 cities were served by MBB; by 2016 this will be over 200 cities.

Another priority is developing our national network. Between 2012 and 2014, we will invest approximately R\$11 billion, with 90% in network infrastructure. In December 2013 as compared with the December 2011, we increased by 11% the volume of installation of TRX equipment, increased by 3.4 times the quantity of sites connected by optical fiber and increased by 21% the capacity of data transportation. The results are consistent with Anatel's announcement in February 2014, that, between August and October 2013, we were the second leading provider in voice network access and maintained the leadership in 3G data network access in Brazil, exceeding the monthly target every and indicating a consistent trend of improvement.

With the acquisition of Intelig, we have integrated more than 15 thousand kilometers of long-distance fiber optic cables connecting the main cities of Brazil. We have been deploying 40G/DWDM/ROADM (dense wavelength-division multiplexing and reconfigurable optical add-drop multiplexer) layers on top of this existing network, modernizing the existing assets by replacing the legacy network. In addition, during last three years, we have entered into joint construction contracts and other partnerships and initiatives, in addition to completing construction projects on our own, that resulted in the expansion of our fiber optic network by approximately 32 thousand kilometers (currently TIM has approximately 47 thousand kilometers of optical routes). In 2013, we launched MBB, initially in 39 cities, which has improved data transmission for mobile broadband users through an expanded high-speed fiber optic network and new functionalities in the network core. By 2016, MBB will be available in over 200 cities. We have also established a partnership with a consortium of electric transmission line operators in the northern region of Brazil, where we acquired the right to launch optical ground wire cables connecting the cities of Manaus, Macapá and other cities near to the transmission line in 2013. During the next few years, we plan to execute additional projects to increase the capillarity of our long-distance backbone network.

Our switching exchanges and intelligent network platform enable us to offer flexible, high quality voice service at extremely competitive prices. Our satellite network covers distant areas of the country and is being expanded and renewed to provide high capacity private service to other carriers and corporate customers. We also acquired capacity from major submarine cable systems such as AmericasII, Globenet and Atlantis2. As mentioned above, we have initiated a multi-year plan to expand the network with a goal of expanding coverage to the most isolated areas of Brazil. During 2013, we expanded our optical transport network, or OTN, by 8 thousand kilometers, added more than 1,3 thousand IP radios, connected our access nodes to own transport network and substituted leased lines, enhancing capacity and reducing our costs.

Finally, the AES Atimus Acquisition and consequent creation of TIM Fiber (now TIM Celular) has improved our fiber optic network presence in the metropolitan regions of Rio de Janeiro and São Paulo. Our fiber optic network has a unique capacity to offer high quality ultra-broadband service, available through our Live TIM service, and is currently highlighted by the following characteristics:

- a fiber network that extends from northern to southern Brazil, including 21 cities in the metropolitan regions of Rio de Janeiro and São Paulo, with continued expansion in Rio de Janeiro and São Paulo where our Live TIM service is

available;

- fiber optic networks using ITU-T g. SMF 652 standards;
- an extensive wide area network, or backbone, of approximately 47,000 kilometers; and
- capability to provide connectivity (a “carrier’s carrier”) through the electrical distribution network.

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Site-Sharing and Other Agreements

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

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

In November 2012, we executed a memorandum of understanding (or "MoU") aimed at negotiating the joint use of LTE network (4G technology) under a RAN sharing model pursuant to which Oi will invest in (and provide TIM with access to) infrastructure in certain cities, while TIM Celular will invest in (and provide Oi with access to) infrastructure in other cities. On March 27, 2013, CADE approved the MoU without any restrictions. On April 18, 2013, Anatel also approved the MoU. In late 2013, TIM Celular and Oi negotiated the extension of the MoU to additional cities, including adding training centers, and the revision certain obligations of each party under the MoU. CADE fully approved the inclusion of new territories and governance structure on November 18, 2013, which completed all regulatory steps necessary for approval.

Customer Service

In order to serve our customer base of over 73 million customers, we maintain eight contact centers, four of our own and four outsourced, comprising more than 13,000 attendants.

Moreover, we have directed efforts at maximizing customer satisfaction through continuous process and systems improvements aimed at bringing us and the customer closer together. We have developed solutions based on IVR and Self-Service and mobile applications for iOS and Android. We have also invested in workforce training on how to explain more clearly our services to new and existing customers and we have improved processes at every level, including simplifying billing and accounting process, launching projects to enhance our workforce productivity, updating procedures focused on meeting customer demands, and developing programs to encourage attendance.

We broadened our scope for customer service in 2013 not only by implementing new channels of contact with the customer but also enhancing existing channels to address evolving customer demands. We successfully implemented portal * 144 # which uses Unstructured Supplementary Service Data, or USSD, technology to allow the activation of services from the mobile device itself. Moreover, we implemented humanization features in our IVR system to refine our automated calling processes, enabling client identification, manual selection of options, recording and reporting through a unique sequential protocol.

We are continuously seeking ways to improve our level of customer service. We constantly monitor and record customer interactions with the company through our proprietary CRM system to enable the improvement of unique and innovative services capabilities at multiple points of contact. In 2013, we evolved our customer identification and routing, eliminating the need for the customer to repeat the requests if transferred to another operator. We invested R\$50 million in 2013 to adopt the Siebel CRM application from Oracle to increase our service quality by identifying our customers' information and needs more quickly.

In 2013, we launched the smartphone application "Meu TIM" to allow self-service access, reduce calls to the call center, and provide greater convenience and autonomy to our customers. We also completely reworked the customer service

section of the TIM website in early 2013.

Billing and Collection

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

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

These billing systems give us significant flexibility in developing service plans and billing options.

Certain aspects of billing customers in Brazil are regulated by Anatel. For mobile telephones, currently if a customer's payment is more than 15 days overdue, we can suspend the customer's ability to make outgoing calls, and if the payment is 45 days overdue, we can suspend the customer's ability to receive incoming calls. After 90 days from the customer's payment due date, we generally discontinue service entirely, although discontinuation of service is sometimes delayed between 120 and 180 days after the due date for valued customers. For fixed telephones, if a customer's payment is more than 30 days overdue, we can suspend the customer's ability to make outgoing calls, and if the payment is 60 days overdue, we can suspend the customer's ability to receive incoming calls. The rules of discontinuation of fixed service are the same as those applied for the mobile service. In March 2013, Anatel submitted for public hearing a proposal of a single regulation for the telecommunications sector, with general rules for customer service, billing, and service offers, which would be applicable to fixed, mobile, broadband and cable TV customers. This proposal is still under development by Anatel and is expected to be approved soon.

In order to avoid delinquency and discontinuation of service, however, we have invested in CRM models to identify customers with higher propensity to early delinquency, or when a postpaid customer does not pay the first or second invoice, and also reinforced credit history checks for our customers prior to service activation. As a result, our bad debt remained flat throughout 2013. The new "Plano Express" has also proved to be an important tool to prevent early delinquency. In 2014 we will expand the "Express" family in the service portfolio.

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, is the main fraud relating to mobile, fixed and long distance service. We are focused on implementing prevention measures in our points of sales to avoid such subscription fraud. Examples of prevention measures include digital authentication for our sales front end system, a strong training program, and monitoring and identification of point of sale.

Competition

Mobile Competitors

TIM is the brand name under which we market our mobile telecommunications services. We offer GSM, 3G, and 4G technologies. Currently, our subsidiaries hold mobile licenses for each of the ten wireless areas of Brazil recognized by Anatel, making us a mobile operator in Brazil offering complete nationwide coverage. In two of our ten areas we

are the Telebrás legacy provider. See “Item 4. Information on the Company—A. History and Development of the Company—Historical Background.” Our network covers approximately 95% of the country’s population based on Anatel’s coverage criteria.

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

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

Other Competition

We also compete with fixed line telephone service providers. The fixed line incumbent providers in Brazil (Oi, Brasil Telecom, Telefónica and Embratel) offer packages of services including voice (both fixed line and mobile), broadband and other services, e.g. 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.

We also compete in the corporate telephony business with Nextel, a digital trunking (based on push-to-talk technology) provider which operates under rules similar to the rules applicable to mobile telecommunications service providers, though trunking operators are not permitted to offer their services to individuals. Nextel has provided trunking services in Brazil since 2001 and, on December 14, 2010, bid R\$1.2 billion in winning 12 lots involving new GSM and UMTS frequencies in Anatel's auction, which gave Nextel the opportunity to be the fifth nationwide mobile telecommunications competitor. At the beginning of 2014, Nextel announced that it would end its digital trunking and that it had entered into agreements with Telefónica which could eventually facilitate the increase of Nextel's PCS operation.

Seasonality

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

Our Operational Contractual Obligations

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

Interconnection Agreements

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

Roaming Agreements

We have entered into roaming agreements for automatic roaming services with other mobile operators outside our regions. Automatic roaming allows our customers to use their mobile telephones on the networks of other mobile

operators while traveling abroad or out of TIM coverage areas in Brazil. Similarly, we provide mobile services for customers of other mobile operators when those customers place or receive calls while visiting Brazilians cities with TIM coverage. We provide services for the clients visiting our network on the same infra-structure basis provided to our own clients. All of the mobile operators party to these agreements must carry out a monthly reconciliation of roaming charges with its roaming partners.

Through TIM Brasil, we are a member of the Brazilian Association of Telecommunications Resources (Associação Brasileira de Recursos em Telecomunicações), or ABRT, a group comprised of all mobile and fixed

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telecommunications service providers operating in Brazil. This association is in charge of managing telecommunications projects in compliance with Anatel in order to support common interests of its members. Our GSM national and international roaming services are supported by individual agreements with our partners.

National Roaming Agreements

In accordance with Anatel requirements, we have entered into national roaming agreements with other Brazilian operators to guarantee a mobile service (voice and SMS) on Anatel's list of cities with less 30,000 habitants.

International Roaming Agreements

We have international roaming agreements available in 207 different countries on more than 483 networks. These agreements include at a minimum voice service, and may be enhanced based on the technology available on the visiting network and can include SMS, multimedia messaging service, or MMS, GPRS, EDGE, 3G and 4G. In 2013, we became the first operator in Brazil to provide international 4G roaming in Italy, one of the main destinations in Europe for Brazilian travelers. By the end of 2014, we expect to expand 4G service to other 17 countries and 21 operators.

We were also the first Brazilian mobile operator to launch a user-friendly international roaming plan, charging per day of usage. In 2013, we expanded our coverage to prepaid customers and developed a different option for the Liberty Express plan.

Site-Sharing Agreement

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

Co-billing services

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

Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable laws.

Activities relating to Iran

We are not to our knowledge engaged in any activities, transactions or dealings with the Government of Iran or that relate in any way to Iran.

We are also required to disclose our affiliates' activities relating to Iran. We have been informed that other members of the Telecom Italia Group have entered into roaming agreements and certain agreements (of a de minimis value) for the provision of telecommunication services with Iranian telecommunications operators. The information

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in this section is based solely on information provided to us by our parent Telecom Italia for purposes of complying with our obligations under Section 13(r) of the Exchange Act.

Telecom Italia

Telecom Italia informs us that the only activities that Telecom Italia has that, to its knowledge, relate in any way to Iran are:

- roaming agreements with the following Iran mobile phone operators: Taliya, KFZO – TKC, Irancell (MTN) and Mobile Company of Iran (MCI);
- commercial relationship for the delivery of traffic from Iran to its networks and from its networks to Iran, or International Carrier Agreements. To this end, its subsidiary Telecom Italia Sparkle S.p.A., directly and through its subsidiaries, entered into agreements with Telecommunication Company of Iran. In addition, Telecom Italia has entered into certain agreements (of a de minimis value) for the provision of telecommunication services (marine radio traffic) with Telecommunication Company of Iran and Islamic Republic of Iran Shipping Lines.

Telecom Argentina

Telecom Argentina S.A., or Telecom Argentina, informs us that the only activities it has that, to its knowledge, relate in any way to Iran are its roaming agreement with MCI. On November 14, 2013, Telecom Italia and Telecom Italia International N.V., or collectively, the Telecom Argentina Sellers, and Tierra Argentea S.A., or Tierra Argentea, a company controlled by the Telecom Argentina Sellers, announced their acceptance of the offer made by Fintech Telecom, LLC, or Fintech, to acquire Telecom Italia's controlling stake in Telecom Argentina owned by the Telecom Argentina Sellers through their subsidiaries Sofora Telecomunicaciones S.A., or Sofora, and Nortel Inversora S.A., or Nortel, and Tierra Argentea. The purchase offer was for a total amount of US\$960 million. On December 10, 2013, the Class B Shares of Telecom Argentina and the Class B Shares of Nortel owned by Tierra Argentea were transferred to Fintech. As a result, the Telecom Italia Group's economic interest in Telecom Argentina is now reduced to 19.3%. The transfer of the shares held by the Telecom Italia Group in Sofora is conditional upon prior approval by regulatory authorities.

Roaming Agreements

The Telecom Italia Group operates one of the largest mobile networks in Italy. Through its foreign subsidiaries, Telecom Italia also has large mobile operations in Brazil (Tim Participações, by means of its subsidiary TIM Celular) and Argentina (Telecom Argentina, by means of its subsidiary Telecom Personal S.A.).

It is pursuant to roaming agreements that a mobile customer is able to use his or her mobile phone on a network different from such mobile subscriber's home network. The following is the definition of roaming that we provide in the glossary of this annual report.

Roaming is 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. The roaming service is active when wireless is used in a foreign country (included on a GSM network).

Like all major mobile networks, in response to the competition and customers' demands, Telecom Italia, Tim Participações and Telecom Argentina have entered into roaming agreements with many foreign mobile networks, so as to allow their customers to make and receive calls abroad.

Roaming agreements are, including those relating to Iran, on standard terms and conditions. In fact, entering into roaming agreements is an activity carried out in the ordinary course of business by a mobile network operator.

Roaming agreements are, generally, reciprocal. Pursuant to a roaming agreement our mobile customers may, when in a foreign country covered by the network, or the Foreign Network, of an operator with which we have a roaming agreement, make and receive calls on their mobile phone using such operator's network. Likewise, the Foreign Network's customers may make and receive calls using our networks when these customers are in Brazil.

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The calls made and received by our customers who use the services of the Foreign Network are billed by the Foreign Network to us at the roaming rate agreed upon in the applicable roaming agreement. Then, we will bill our end customers according to the specific tariff plan of the subscription they have signed with us. Likewise, we bill the Foreign Network at the roaming rate agreed upon in the applicable roaming agreement. The Foreign Network will bill its clients for the calls made and received using our networks according to their specific offer to their customer base. Roaming contracts do not, generally, contemplate other fees or disbursements.

Telecom Italia informs us that in 2013, the impact on Telecom Italia Group net profit (loss) arising from such roaming contracts is as follows:

- its total revenues from roaming agreements with Iranian networks were approximately 182 thousand euros (of which 159 thousand euros were recorded by Telecom Italia);
- its total charges from roaming agreements with Iranian networks were approximately 212 thousand euros (of which 210 thousand euros were recorded by Telecom Italia).

Telecom Argentina informs us that in 2013 the consolidated impact on net profit (loss) arising from Telecom Argentina's roaming agreements with MCI were as follows:

- its total revenues received under roaming agreements with MCI were approximately three hundred and sixty seven U.S. dollars;
- its total charges paid under roaming agreements with MCI were approximately two hundred and twenty U.S. dollars.

The purpose of such roaming agreements is to provide Telecom Italia and Telecom Argentina's customers with coverage in areas where they do not own networks. Accordingly, the Telecom Italia group intends to continue maintaining these agreements. As previously mentioned, Telecom Italia is in the process of obtaining regulatory approval to complete the sale of its controlling stake in Telecom Argentina. Accordingly, we are not aware as to whether they intend to continue maintaining these roaming agreements once this controlling stake is transferred.

International Carrier Agreements

As a rule in the modern telecommunication business, when traffic from a specific network is placed to or transported through another carrier's network (the "Host Network"), the Host Network receives a fee from the incoming network.

Telecom Italia informs us that in 2013, the impact on its net profit (loss) arising from the above-mentioned International Carrier Agreements is as follows:

- its total revenues from traffic from networks located in Iran to its networks were approximately 1.4 million euros;
- its total charges from traffic to networks in Iran from its networks were approximately 0.5 million euros.

The purpose of this agreement is to allow exchange of international traffic. Consequently, Telecom Italia intends to continue maintaining this agreement.

All such revenues and charges are de minimis with respect to Telecom Italia's consolidated revenues and operating expenses, respectively.

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, COFINS, PIS, FUST, FUNTTEL, FISTEL, CONDECINE and corporate income tax and social contribution on net income, which are described below.

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- **ICMS.** The principal tax applicable to goods and telecommunication services is a state value-added tax, the Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, which the Brazilian states levy at varying rates on certain revenues arising out of the sale of goods and services, including certain telecommunications services. The ICMS tax rate for domestic telecommunications services is levied at rates between 25% and 35%. The ICMS tax rate levied on the sale of mobile handsets averages 17% or 18% throughout the Cellular Regions, to the exception of certain handsets whose manufacturers are granted certain local tax benefits, thereby reducing the rate to as much as 7%. In 2005, certain of the Brazilian states started to charge ICMS on the sale of mobile handsets under a “tax replacement” system, under which the taxpayer that manufactures the goods is required to anticipate and pay ICMS amounts that would otherwise only become due in later steps of the distribution chain.
- **COFINS.** Contribuição Social para o Financiamento da Seguridade Social, or COFINS, is a social contribution levied on gross revenues (financial revenues are levied at the rate of 0% due to Decree No. 5,442/2005 if the company is taxed in the non-cumulative method or if it applies both methods). Since January 1, 2000, companies began to pay COFINS tax on their bills at a rate of 3%. In December 2003, through Law No. 10,833, COFINS legislation was further amended, making this tax noncumulative, raising the rate to 7.6% for certain transactions, except in connection with, among others, telecommunications services, for which the method continues on a cumulative basis at a rate of 3%.
- **PIS.** Programa de Integração Social, or PIS, is another social contribution levied at the rate of 0.65%, on gross revenues from telecommunications service activities. In December 2002, Law No. 10,637 was enacted, making such contribution non-cumulative and increasing the rate to 1.65% on gross revenues (financial revenues are levied at the rate of 0% due to Decree No. 5,442/2005 if the company is taxed in the non-cumulative method or if it applies both methods), except in connection with telecommunications services, for which the method continues on a cumulative basis at a rate of 0.65%.
- **FUST.** On August 17, 2000, the Brazilian government created the Fundo de Universalização dos Serviços de Telecomunicações, or FUST, a fund that is supported by a tax applicable to all telecommunications services. The purpose of the FUST is to reimburse a portion of the costs incurred by telecommunications service providers to meet the universal service targets required by Anatel (such as targets for rural and impoverished areas, schools, libraries and hospitals), in case these costs are not entirely recovered through the collection of telecommunications service fees and charges. FUST tax is imposed at a rate of 1% on gross operating revenues, net of discounts, ICMS, PIS and COFINS, and its cost may not be passed on to clients. Telecommunication companies can draw from the FUST to meet the universal service targets required by Anatel.

On December 15, 2005, Anatel enacted ordinance No. 7/05 requiring that FUST should be paid on revenues arising from interconnection charges since its effectiveness. A notice was issued deciding that we must adjust values on the FUST calculation basis in order to include interconnection revenues received from other telecommunications companies. A writ of mandamus was filed against Anatel to avoid the terms of ordinance No. 7/05. The first level decision was issued in our favor. Such decision was challenged by Anatel and the Appeal will still be judged by second level.

- **FUNTTEL.** On November 28, 2000, the Brazilian government created the Fundo para Desenvolvimento Tecnológico das Telecomunicações, or FUNTTEL, a fund that is supported by a social contribution tax applicable to all telecommunications services. FUNTTEL is a fund managed by BNDES and FINEP, government research and development agencies. The purpose of 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. 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.

On March 21, 2013, Anatel enacted Resolution No. 95, which regulates FUNTTEL collection. As in the case of FUST, it requires that FUNTTEL be calculated based upon revenues arising from interconnection charges since its effectiveness. Sinditelebrasil, the Brazilian syndicate of telecom

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companies, filed a Writ of Mandamus against Anatel in order to compel Anatel not to apply Resolution No. 95. An injunction was issued in our favor but the final decision has not been rendered yet.

- **FISTEL.** Fundo de Fiscalização das Telecomunicações, or 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. FISTEL consists of two types of fees: (1) an installation inspection fee assessed on telecommunications stations upon the issuance of their authorization certificates, as well as every time a new mobile number is activated, and (2) an annual operations inspection fee that is based on the number of authorized stations in operation, as well as the total basis of mobile numbers at the end of the previous calendar year. The amount of the installation inspection fee is a fixed value, depending on the kind of equipment installed in the authorized telecommunication station. Effective April 2001, the installation and inspection fee is assessed based on net activations of mobile numbers (that is, the number of new mobile activations reduced by the number of cancelled subscriptions), as well as based on the net additions of radio base stations. The operations inspection fee equals 33% of the total amount of installation inspection fees that would have been paid with respect to existing equipment. The public funds raised from this installation fee are appropriated to either the Brazilian Communication Company, or EBC, or ANCINE, in order to benefit Brazilian cinema industry.
- **Corporate Income Tax and Social Contribution on Net Income.** Income tax expense is made up of two components, a corporate income tax, or IRPJ, on taxable income and a social contribution tax on net income, or 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.

In 2013, the Brazilian government enacted Provisional Measure No. 627, in order to end the Transitional Tax Regime, or RTT. RTT was implemented in 2008 as a way to neutralize the tax impact caused by the adoption of IFRS accounting rules in lieu of Brazilian GAAP. Provisional Measure No. 627 allows taxpayers to choose either to maintain RTT in 2014 or to be subject to the provisions contained in the Provisional Measure No. 627. Although taxpayers may elect to maintain RTT treatment in 2014, they will be obligated to adopt the new IFRS accounting rules in 2015.

Another substantial change brought about by Provisional Measure No. 627 is the treatment of dividends. Generally, dividends paid up to the limit of a company's accounting profits are exempt from corporate income tax. However, during 2013, Brazilian tax authorities published guidance indicating that such exemption should only apply to dividends paid based on the profits calculated according to the rules prior to IFRS (referred to as "fiscal profits"). If any dividends exceed this limit, then they must be taxed. This generated much debate among taxpayers and, as a response, dividends paid in the last five years over the limit of "fiscal profits" will be exempted as long as taxpayers adopt the new rules in 2014.

Given that Provisional Measure No. 627 has not yet been converted into law and that there are over 500 proposed amendments to the normative text in Congress, there are still many uncertainties about its possible impact. In this sense, it is important to note that we, unlike our competitors, do not have any contingency regarding the payments of dividends. Accordingly, we have elected not to implement the new measures in 2014, especially given the many uncertainties about its terms and interpretation.

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

These distributions may be paid in cash. The interest is calculated in accordance with daily pro rata variation of the Brazilian government's long term interest rate, or TJLP, as determined by the Central Bank from time to time, and cannot exceed the greater of: (1) 50% of the net income (before taxes and already considering the deduction of the own interest amount attributable to stockholders) related to the period in

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respect of which the payment is made; or (2) 50% of the sum retained profits and profits reserves as of the date of the beginning of the period in respect of which the payment is made.

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

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

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. Previously, Brazilian entities were allowed to deduct income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income (reciprocity of treatment between Brazil and the country from which the income or gain comes from is required in order for this rule to apply). Effective January 1, 2002, however, 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.

Regulation of the Brazilian Telecommunications Industry

General

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

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

Regarding the operating activities of TIM Celular and Intelig (in August 2012, TIM Fiber was merged into TIM Celular, which assumed TIM Fiber's existing service obligations), Anatel has developed a strict regulation of mobile communications services known as Personal Communication Service (Serviço Móvel Pessoal), or PCS, land line services known as Commuted Fixed Telephonic Service (Serviço Telefônico Fixo Comutado), or STFC and data communication known as Multimedia Service of Communication (Serviço de Comunicação Multimedia), or SCM.

Anatel may regularly alter these standards based on changes in technology, in particular regarding PCS technology, which are common to the telecommunications sector. In order to allow operators to plan for the implementation of these policies, Anatel approved a General Plan of Update of Telecommunications Regulation in Brazil (Plano Geral para Atualização da Regulamentação das Telecomunicações no Brasil), or PGR, pursuant to which it established short-, medium-, and long-term policies for two, five, and ten-year terms, respectively. Anatel has authority to propose and to issue regulations that are legally binding on telecommunications service providers.

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Any proposed regulation or action by Anatel is subject to a period of public comment, which may include public hearings, and may be challenged in Brazilian courts. This regulation process takes into consideration Anatel's specialized analysis of different areas of the telecommunication sector and matters resulting from public hearings, by means of which the regulation proposals are considered by Anatel, state authorities and the general public. We follow these public hearings closely.

A presidential decree issued on June 30, 2011, established a bidding process for fourth generation radio frequencies, an important landmark for the telecommunications sector. The bid occurred in 2012 and, in order to guarantee full rural service by 2018, Anatel linked the 4G blocks to the 450MHz band in specific geographic regions of Brazil. As a result, the four winning operators of the 4G blocks linked to the 450MHz band are subject to coverage commitments in rural areas. Such presidential decree also resulted in two new regulations to measure mobile and fixed broadband quality standards. The presidential decree also approved the Regulation on Universal Obligations (Plano Geral de Metas de Universalização), or PGMU, creating fixed line universal service obligations binding on the concessionaires of the 4G blocks.

With respect to the new regulations on quality standards currently being implemented by Anatel and a group of interested companies, the PCS quality regulation went into force in 2012 (partially in March and fully in October), and the SCM measurement regulation went into effect in November 2012. Full adoption of these standards will require new investments.

Throughout 2013, Anatel issued other important regulations and public consultations that will have great impact on TIM and Intelig's activities, particularly those summarized below:

- Resolution No. 612, published in April 2013, which approved Anatel's internal rules, bringing significant changes to the Agency's structure and procedures;
- Resolution No. 614, published in May 2013, which approved the new SCM Regulation, establishing new rules for the provision of the SCM;
- Resolution No. 618, published in July 2013, which amended the SeAC Regulation, reviewing the documentation required for purposes of the issuance of station operation permits;
- Resolution No. 622, published in August 2013, which approved the Regulation on the Provision of the STFC Outside the Basic Rate Area (ATB), establishing the rules for the provision of the service to users who are in rural areas;
- Resolution No. 623, published in October 2013, which approved the Users Council Regulation, establishing general rules for the implementation, operation and maintenance of the STFC, PCS, SME (trunking), SCM and Pay TV services Users Council;
- Resolution No. 624, published in October 2013, which approved the Regulation on the Use of Femtocell in mobile networks;
- Resolution No. 625, published in November 2013, which ruled on the allocation of the 700 MHz band for telecommunications services (this resolution will only come into force with the publication of the corresponding tender invitation, which in turn is subject to the publication of the regulation against harmful interference and the conclusion of the broadcasting TV channels replanning);
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Resolution No. 627, published in November 2013, which amended the PCS Regulation, determining the PCS operators must provide public emergency service with information on the location of the mobile station that connects to the public emergency service;

- Resolution No. 629, published in December 2013, which approved the Conduct Settlement Agreements (TAC), an extrajudicial instrument by which operators commit to Anatel to resolve by certain deadlines various stipulated service issues;

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- Public Consultation No. 13, published in March 2013, which proposed the adoption of a single regulation for the telecommunications sector, with general rules for customer service, billing, and service offers, which shall be applicable to fixed, mobile, broadband and cable TV customers. The initiative aims to bring all telecommunications services to answering rules within the Customer Service Law (Lei do SAC), as to complying to deadlines and information custody terms;
- Public Consultation No. 40, published in September 2013, which solicited public comments on a draft of the rule for pricing the STFC and PCS interconnection and EILD based on cost model.

Authorizations and Concessions

With the privatization of the Telebrás system and pursuant to the Lei Mínima, or the Minimum Law, Band A and Band B service providers were granted concessions under Cellular Mobile Service (Serviço Móvel Celular), or SMC, regulations. Each concession was a specific grant of authority to supply mobile 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 mobile telecommunications service providers operating under SMC regulations to convert their concessions into authorizations under PCS regulations. According to the rules issued by Anatel, SMC providers would not be able to renew their concessions to provide SMC services, and were compelled to convert to the PCS regime in order to continue their operations. The permission from Anatel to transfer the control of these companies was also conditioned on rules that compelled SMC providers to migrate its SMC concessions to PCS authorizations, and to operate under the PCS regulations.

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

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

In October 2012, we acquired the 2,530-2,540 MHz and 2,650-2,660 MHz sub-bands, with national coverage, and the 450 MHz band in Espírito Santo, Paraná, Rio de Janeiro and Santa Catarina states (the 450 MHz band was jointly acquired with Intelig).

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

The following table shows each of TIM Celular's PCS authorizations in effect on December 31, 2013.

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| Territory | Expiration date | | | | | |
|--|--------------------------|---|---------------------------------------|--|-----------------------------|--|
| | 450 MHz | 800 MHz, 900 MHz and 1.800 MHz | Additional Frequencies 1800 MHz | 1900 MHz and 2100 MHz (3G) | 2500 MHz V1 Band (4G) | 2500 MHz P Band** (4G) |
| States of Amapá, Roraima, Pará, Amazonas and Maranhão | — | March, 2016 | April, 2023 | April, 2023 | October, 2027 | AM - September, 2014 PA - February, 2024* |
| States of Rio de Janeiro and Espírito Santo | October, 2027 | March, 2016 | — | April, 2023 | October, 2027 | RJ - February, 2024* |
| States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás, Rio Grande do Sul (except for the city of Pelotas and its surrounding region) and the cities of Londrina and Tamarana in the state of Paraná | PR - October, 2027 | March, 2016 | — | April, 2023 | October, 2027 | DF - February, 2024* |
| State of São Paulo | — | March, 2016 | — | April, 2023 | October, 2027 | — |
| State of Paraná (except for the cities of Londrina and Tamarana) | October, 2027 | September, 2022* | April, 2023 | April, 2023 | October, 2027 | February, 2024* |
| State of Santa Catarina | October, 2027 | September, 2023* | April, 2023 | April, 2023 | October, 2027 | — |
| City of Pelotas and its surrounding region in the State of Rio Grande do Sul | — | April, 2024* | — | April, 2023 | October, 2027 | — |
| State of Pernambuco | — | May, 2024* | — | April, 2023 | October, 2027 | — |
| State of Ceará | — | November, 2023* | — | April, 2023 | October, 2027 | — |
| State of Paraíba | — | December, 2023* | — | April, 2023 | October, 2027 | — |
| | — | | — | | | — |

| | | | | | | |
|---|---|-----------------|-------------|-------------|---------------|----------------|
| State of Rio Grande do Norte | | December, 2023* | | April, 2023 | October, 2027 | |
| State of Alagoas | — | December, 2023* | — | April, 2023 | October, 2027 | — |
| State of Piauí | — | March, 2024* | — | April, 2023 | October, 2027 | — |
| State of Minas Gerais (except for the cities in sector 3 of PGO for radiofrequencies of 3G and excess radiofrequencies) | — | April, 2013 | April, 2023 | April, 2023 | October, 2027 | February, 2015 |
| States of Bahia and Sergipe | — | August, 2027* | — | April, 2023 | October, 2027 | — |

* Terms already renewed for 15 years and therefore not entitled to another renewal period

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

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

In August 2009, Anatel gave its approval for the acquisition of the fixed line operator Intelig, which at the time was a local, national and international long distance operator in Brazil and provided fixed broadband service in a number of regions in Brazil. According to the regulations, TIM Celular and Intelig were obliged to resolve the overlapping of their fixed service authorizations, keeping only one authorization per class of service. From July 2012, local fixed telephone service have been provided by Intelig and the national and international long distance telephone service have been provided by TIM Celular, under the selection code 41.

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In July 2011, TIM Celular acquired from the Companhia Brasileira de Energia and AES Elpa, its interest in Eletropaulo Telecomunicações (100%) and AES RJ (98.3%) (together, “AES Atimus,” later named TIM Fiber and now TIM Celular). The contract was signed on July 8, 2011. On October 31, 2011, after all conditions set forth by the relevant regulatory agency were fulfilled, the transaction was completed. With these new acquisitions, TIM Celular not only significantly expanded its operations in the data communications business, or SCM, in the urban areas of the states of Rio de Janeiro and São Paulo, but also obtained important synergies related to the acquired fiber optic network. In August 2012, TIM Fiber was merged into TIM Celular. In connection with such merger, TIM Celular assumed TIM Fiber’s service obligations, thereby ensuring continuity of services.

National Broadband Program

In May 2010, the Brazilian government approved a National Broadband Program to extend national broadband coverage by 2014. The plan includes the reactivation of Telebrás, which is responsible for managing and operating a national fiber optic network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of “entry level” broadband residential connections. Other measures included in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries. Following a scheduled review of the program, a price decrease and a 100% coverage requirement for Public Schools are under discussion and will probably be added to the plan over the next few years.

According to a report by the Communications Ministry in June 2013, since the launch of National Broadband Program the number of cities with access to mobile broadband has grown by 330%, and all major cities had access to fixed broadband.

We have signed contracts with Telebrás and currently offer lower cost Internet packages under the National Broadband Program. In December 2013, we also signed a fiber optic network sharing agreement with Telebrás, which provides for the sharing of 2208 kilometers of long-distance fiber cables. This agreement will enable high speed broadband access in remote locations within the North and Northeast of Brazil, network improvements in the Southeast, and will bring benefits to São Paulo, Belo Horizonte and Rio de Janeiro by alleviating congestion on the backbone network routes. We believe that this partnership with Telebrás signals a path to unprecedented market share which will enable further development and innovation of the telecom sector.

Obligations of Telecommunications Companies

In November 1999, Anatel and the Brazilian mobile service providers jointly adopted a Protocol for Mobile Cellular Service Providers, or 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 and TIM Maxitel after July 2003.

Beginning in September 2003, we became subject to the PCS quality of service indicators. Our quality of service obligations under our PCS authorizations differ substantially from those under the previous SMC concessions. See “—PCS Regulation.” Since December 2003, we have achieved the majority of the service of quality requirements applicable to the PCS service operators. Some of our PCS quality of service indicators are currently difficult to achieve due to, for example, our dependence on the performance of third parties and the continuing clarification of some of the quality of service measurements under the PCS rules. As a result, since 2004 Anatel has been filing

administrative proceedings against TIM Celular and TIM Nordeste for non-compliance with certain of our quality of service obligations. In some of these proceedings, Anatel applied a fee that did not cause a material adverse effect on our business, financial condition and results of operations. We will continue to strive to meet all of our quality of service obligations under the PCS authorizations.

In 2011, Anatel published Resolution No. 575/11 to Review of the Regulation on the Management of Quality of Service – PCS. The new regulation established new quality goals, evaluation criteria, data collection and quality

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monitoring of Service Providers – PCS. The Anatel regulation aims to create a comprehensive model of quality management of the PCS providers providing preventive and proactive on the part of the Agency, through the incorporation of indicators and benchmarks that allow the systematic evaluation of the quality of service in all its dimensions. Anatel also published Resolution No. 574/11 in 2011, which set broadband quality measurement standards.

This new list of proposals for quality indicators is divided into two major groups: Operational Indicators and Indicators Research for measuring the quality of service perceived by the user.

PCS Regulation

In September 2000, Anatel promulgated regulations regarding PCS wireless telecommunications services that are significantly different from the ones applicable to mobile 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 mobile telecommunications 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 and TIM Maxitel converted their cellular concessions into PCS authorizations in December 2002, and later transferred them to TIM Sul, TIM Nordeste and TIM Maxitel, which are now TIM Celular subject to obligations under the PCS regulations. See “—Authorizations and Concessions.”

Anatel has initiated administrative proceedings against TIM Celular for noncompliance with certain quality standards and noncompliance with the rules and the authorization terms. We have been fined by Anatel in some proceedings and are still discussing the penalty imposed in appeals before the Agency. As a result of these proceedings, Anatel applied some fines that did not cause a material adverse effect on our business, financial condition and results of operations. In the year ended December 31, 2013, the total amount of these fines was R\$120,641 thousand. However, only R\$55,584 thousand were classified as “probable loss” by our legal advisors. We continue to do our best to fully comply with our obligations under the PCS regime or with future changes in the regulations to which we are subject. See “—Obligations of Telecommunications Companies,” “Item 3. Key Information—D. Risk Factors—Risks Relating to our Business” and “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

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

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

- Creating at least one customer service department for each municipality division;
- Increasing prepaid card terms (from 90 days to at least 180 days);
- Reimbursing prepaid credits;

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- 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.

In October 2012, Anatel enacted the Regulation on Universal Obligations related to the fixed line universal service obligations (Plano Geral de Metas de Universalização), or PGMU, regulating backhauling, public pay phones and telephone services for families with low incomes, among others. In November 2012, Anatel enacted the General Plan for Competition Goals (Plano Geral de Metas de Competição), whose goal is to encourage competition by creating interconnection obligations and the sharing of infrastructure already installed by other operators.

In March 2013, Anatel proposed the adoption of a single regulation for the telecommunications sector, with general rules for customer service, billing, and service offers, which would be applicable to fixed, mobile, broadband and cable TV customers. The initiative, still under development by Anatel, aims to bring all telecommunications services in line with the Customer Service Law (Lei do SAC), particularly with respect to deadlines and data protection rules.

Significant Market Power

In November 2012, Anatel published a new competition framework known as the PGMC. Also in November 2012, Anatel published a series of regulations identifying groups with significant market power in the following relevant markets as defined by the PGMC: (i) copper pair or coaxial cable data transmission access landline network infrastructure offer at transmission rates up to 10 Mbps (Act No. 6.617, of November 8, 2012); (ii) wholesale local transport and long distance inland network infrastructure offer for data transmission rates of 34 Mbps or less (Act No. 6.619, of November 8, 2012); (iii) passive infrastructure for transport and access networks (Act No. 6.620, of November 8, 2012); (iv) mobile network inbound calls (Act No. 6.621, of November 8, 2012); and (v) national roaming (Act No. 6.622, of November 8, 2012).

The TIM Group, comprised of TIM Celular and Intelig, is currently classified as a significant market power in the following markets: (i) passive infrastructure in transport and access networks (provision of towers); (ii) mobile network inbound calls (otherwise referred to as the mobile network termination market); and (iii) national roaming.

Due to such classification we are now subject to increased regulation under the PGMC, which could have an adverse effect on our business financial condition and results of operations. Specifically, because we have been classified as having significant market power in the mobile network termination market, the rates charged by mobile service providers to other mobile service providers to terminate calls on their mobile networks, or VU-M, are regulated. VU-M mobile termination rates may currently be negotiated among operators with reference rates only applied by Anatel in case of dispute, and, beginning in 2016, VU-M reference rates are expected to be determined on the basis of costs. Moreover, because of our classification as having significant market power in the national roaming market, we must offer roaming services to other mobile providers without significant market power at the lowest tariff rate in the market. We are also required to provide other providers without significant market power access to our towers and masts due to our classification as having significant market power in that portion of the passive infrastructure market.

For additional detail, see – “Network Usage Charges”, “Roaming Fees”, “Interconnection Charges” and “Long Distance”.

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.

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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), or 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), or 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.

In 2013, Anatel reviewed almost the entirety of DSAC. Pursuant to Resolutions No. 608 and 619, the level of information to be delivered to Anatel and the number of products analyzed were extended. Rules on costs allocation were also standardized in order to allow comparison of the results among operators. In September 2013, Anatel submitted to for public comment a draft of its rule on pricing of STFC and PCS interconnection, as well as EILD, based on a cost model. Such rule and the corresponding reference amounts are still under development by Anatel.

With respect to mobile interconnection, in October 2011, Anatel established a mechanism for reducing fixed-to-mobile call rates, applying a reduction of 18% in 2012 and 12% in 2013. In November 2012, Anatel decided that the VU-M reference rates in 2014 would be 75% of the valid VU-M in 2013, and in 2015 it would be 50% of the valid VU-M in 2013.

Besides the VU-M reduction, Anatel established a Bill & Keep, or B&K, between SMP and non-SMP PCSs. From January 2013 until February 2015, the B&K will be 80%/20%. From 2015 until 2016 the B&K will be 60%/40%. After 2016 the VU-M will be charged by the SMP whenever their network is used to originate or to finish a call.

With respect to fixed interconnection, Anatel revised the criteria for pricing the use of fixed networks in May 2012. According to such regulation, after January 1, 2014, a full B&K regime (in which no payments are due for the traffic termination) was implemented for local STFC operators dealing with other local STFC operators. Currently, therefore, no payments are due for the use of a local STFC operator’s network by other local STFC operator.

In November 2012, as part of the cost model transition, Anatel set out the 2014 mobile termination reference rate VU-M for operators with significant market power at 75% of the valid VU-M in 2013, and the 2015 reference rate VU-M at 50% of the valid VU-M in 2013. Based on that, in December 2013, VU-M prices for 2014 and 2015 were published in Resolution No. 600. Anatel should have released the cost modeling methods for 2016 onwards in 2013 as well, but did not. VU-M prices were to decline based on a glide path until the cost modeling known as LRIC+ Bottom Up is applied. However, this disclosure was postponed due to the need for major analysis on the tariff figures by Anatel.

Rate Regulation

Under our PCS authorizations, we are allowed to set prices for our service plans, subject to approval by Anatel, provided that such amounts do not exceed a specified inflation adjusted cap. Anatel currently uses the IST (Índice de Serviços de Telecomunicações), a general price inflation index developed by FGV, in evaluating prices and determining the relevant cap for prices charged in the telecommunications industry. Beginning in 2012, we expect Anatel to begin to assess prices in the telecommunications industry based on a model that takes into account the costs of a hypothetical company costs, along with other factors. We expect that the adjustment of our prices will follow the market trend, and that the adjustment will be below the annual inflation rate based on the IST. If this new inflation

adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

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Number Portability

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

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 connection 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 through our network.

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

Although a subject of great debate, Anatel seems to have expressed itself as the competent authority to regulate network neutrality. This conclusion can be drawn from their analysis of the request for approval for the acquisition of Brasil Telecom by Oi, in which a neutral treatment of the network was imposed. Furthermore, Anatel included regulation of network neutrality in the SCM Regulation proposal, submitted for public consultation in 2011, forbidding the blockage and discriminatory treatment of traffic, except for the procedures shown as essential for the safety and stability of the service and its supporting networks. Although such specific rules related to net neutrality were not confirmed in the final version of the SCM regulation, approved by Anatel in 2013, a general principle remained in the regulation that SCM providers must observe net neutrality principle, in accordance with Anatel’s regulations and the applicable law.

Frequencies and Spectrum Background

We have a license to operate PCS services in the 450 MHz, 800 MHz, 900 MHz, 1.8 GHz and 1.9/2.1 GHz and 2.5 Ghz frequency ranges, which allows us to provide mobile communications services with 2G, 3G and 4G technologies throughout Brazil.

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 could only be provided under Bands C, D and E at that time with initially 1800 MHz band and afterwards also the 900 MHz band. We acquired the D band in regions II and III and the E band in region I, completing our national coverage when considering TIM Sul, TIM Nordeste and Maxitel coverage.

In December 2007, we acquired new authorizations for the 1800 MHz frequency in the São Paulo and Rio de Janeiro in order to improve our radio frequency capacity in these regions. Within the same auction, Claro and Vivo acquired authorizations to provide PCS services in regions where we historically provide services but where Claro and Vivo previously did not, using 1800 MHz and 1900 MHz bands, which has resulted in increased competition in these regions. In the same auction, Oi received authorization to provide PCS services in the state of São Paulo using 1800 MHz (band M in the whole state and band E in the state's countryside).

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

- Of the 12 available lots in the H Band, 10 were awarded to Nextel, a new entrant in the GSM market, which has traditionally offered trunking services in Brazil. Current operators were prevented from participating due to spectrum caps. Oi and CTBC managed to win the remaining two 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 five 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 900 MHz and due to available cap, managed to win lots of 1700/1800 MHz 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 December 2011, Anatel started auction No. 001/2011-PVCP/SPV, pursuant to which 16 blocks in the 1,800 MHz band were sold to Claro, Oi, CTBC and TIM. As a result of our participation in the auction, we will expand our 2G coverage and increase our presence in the northern and midwestern regions of Brazil, including the states of Paraná, Espírito Santo, Rio Grande do Sul, Santa Catarina and Minas Gerais. Our corresponding radiofrequency authorization periods were formalized with Anatel in May 2013, after Anatel ruled on an appeal challenging the bidding process outcome.

In 2012, Anatel established a bidding process in order to comply with Presidential Decree No. 7.512 of June 2011, which set April 2012 as the deadline to auction the 2.5GHz band, in order to introduce 4G technology in Brazil. Anatel modeled the auction with 2 national blocks of (20+20)MHz (W and Z) and 2 national blocks of (10+10)MHz (V1 and V2). In order to guarantee full rural service by 2018, Anatel linked the 4G blocks to the 450MHz band in specific geographic regions of Brazil. By April 30, 2013, FIFA Confederations Cup host cities (Belo Horizonte, Fortaleza, Rio de Janeiro, Recife, Salvador and Brasília), in preparation for hosting the FIFA 2014 World Cup and the 2016 Olympic Games, were to have been served by 4G. Following the results of the auction in October 2012, TIM acquired for R\$340 million the 2,530-2,540 MHz and 2650-2660 MHz sub-bands, with national coverage, and the 450 MHz band in Espírito Santo, Paraná, Rio de Janeiro and Santa Catarina states (the 450 MHz band was jointly acquired with Intelig). Certain 4G coverage commitments were effective as early as April 2013, while the first coverage commitments for the 450 MHz band are effective by June 2014. As of December 2013, we are providing 4G coverage to approximately 10% of the urban population of Brazil, including eight capital cities. In December 2013, we launched 4G in Natal, ahead of Anatel’s required schedule. Satisfaction of these coverage commitments demands heavy capital investments and a commitment to acquire products with national technology, with R\$1.5 billion to be invested in 4G alone over the next three years.

We participated in the auction as a group bidding in the name of TIM and Intelig. We did not bid for the W block (Amazonas as a rural area), which we viewed as having a high premium if compared to the X block (67%), whereas we successfully acquired the V1 block, which in our view held the best CAPEX/OPEX profile associated with rural services in its selected regions (RJ, ES, SC and PR). The joint bid allowed us to take advantage of the flexibility of the auction rules. These bands brought heavy coverage obligations as its short range characteristics demands large investments.

The year 2013 began with indications from the government and Anatel that they hoped to speed up the move to digitalization of TV in Brazil. In November 2013, Anatel approved the dedication of a single band exclusively to mobile services. The objective is to free a “digital dividend” band, of the 700MHz spectrum, attributed to mobile services and free of TV channels, allowing the band to be auctioned off in 2014. The rules of the Digitalization Plan and the auction have not been clarified and we believe that in some cities this schedule will not be met, making it

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necessary to have specific plans per region. The 700MHz spectrum with its long range and good penetration characteristics is very important to support rural obligations and city coverage but given its proximity of the 2.5GHz auction and the attendant obligations already in deployment, the 700MHz band loses some of its value in network synergy and infrastructure deployment.

In addition, Anatel is expected to auction bandwidths in the 3.5 GHz and 10.5 GHz (WI-MAX) spectrum to provide broadband wireless and fixed telephony services, though it is uncertain when these auctions will occur, as they have been delayed due to certain issues regarding band attribution and interference issues. We are still analyzing whether to bid for this bandwidth when and if it becomes available. Were we to bid, there is no assurance that our bids will be successful. Purchasers of these bandwidths could potentially offer services that could compete with our services.

VU-M and Wholesale Market

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

Anatel urged us to adopt a single VU-M per region, as such region is set out in the PCS License General Plan (Plano Geral de Autorizações), or PGA, which began on November 1, 2010. We declined to do so and instead choose to commercially negotiate VU-Ms with different providers. Under current regulations, VU-M rates may currently be negotiated among operators with reference rates only applied by Anatel in case of dispute.

October 2011, Anatel decided to reduce fixed to mobile rates, based on a reduction in the respective wholesale interconnection levels on call termination. Anatel proposed a reduction of the fixed to mobile rates of 18% in 2012 and 12% in 2013, based on nominal declines. In the future, Anatel intends to establish the reference tariffs for operators with significant market power based on the fully allocated historic costs system, which reference tariffs are already under development by Anatel in consultation with a consortium formed by three companies (Advisia, Analysis Mason and Grant Thornton). The contract signed in August 2011 between Anatel and the consortium provides for a cost model in the amount of \$8.22 million, which corresponding rules are expected to be effective by 2014 and which will likely imply a reduction of the mobile termination rate. We believe the rate reductions put in place by Anatel fail to consider the need to preserve PCS market competition, and we filed an administrative appeal with Anatel, which was denied in December 2012.

In November 2012, as part of the cost model transition, Anatel set the 2014 mobile termination reference rate VU-M for operators with significant market power in the mobile network inbound calls market at 75% of the valid VU-M in 2013, and the 2015 reference rate VU-M at 50% of the valid VU-M in 2013. Based on that, in December 2013, VU-M prices were published in Resolution No. 600 for 2014 and 2015. Anatel should have released the cost modeling methods for 2016 onwards in 2013 as well, but did not. As previously noted, Anatel classified us as belonging to economic groups with significant market power in the mobile network termination market to which these cost models apply.

We believe, however, that when Anatel adopted such decisions, it failed to observe the proper administrative process required to issue new regulations. We have filed an annulment application with Anatel in connection with the November 2012 resolution, which is still under review by Anatel. Accordingly, we understand the VU-M prices contained in Resolution No. 600 may only be imposed on us after Anatel has ruled on our annulment application. Accordingly, we have filed an administrative appeal with Anatel, which is still under review by Anatel.

Industrial Exploration of Dedicated Lines

In December 2010, Anatel approved a public hearing that considered alterations of the Industrial Exploration of Dedicated Lines (Exploração Industrial de Linha Dedicada) or EILD, which established mechanisms for the operation of transmissions circuits to increase transparency between operators and concessionaires. In May 2012, Anatel approved the new EILD regulations (Regulação de Exploração Industrial de Linha Dedicada) or REILD, or REILD, detailing mechanisms to optimize the operating structure for transmission loop contracts in order to increase

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contract price transparency and affording equal treatment to independent service providers from concessionaire groups. The REILD specifically sets out more effective rules on project definition including Standard EILD or Special EILD, in addition to contract and delivery terms, and specifies EILD delivery dispute resolution procedures. Concurrently, in May 2012, Anatel approved new EILD reference prices, substantially lower than those previously in place, and a step towards value fixation in disputes between service providers.

According to the new REILD, contracts executed prior to its implementation should be amended within 120 days from publication. We have started discussions to amend our EILD contracts, though we have found it necessary to ask Anatel's intervention to solve certain disputes. While the new REILD provides procedures for promptly resolving disputes involving the provision of dedicated lines, Oi has taken legal actions that are delaying the actual amendment of the EILD contracts we have with them.

Considering that EILD is also a market subject to the asymmetric regulation defined by Anatel in the PGMC, operators classified by Anatel as pertaining to group with significant market power in the EILD market, such as Oi, were required to submit reference prices and offers for Anatel's approval. In September 2013, Anatel approved reference prices and offers of the operators with significant market power in the EILD market. We are not currently classified as having significant market power in the EILD market.

Costs Modeling

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

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

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

In December 2012, Anatel held, in Brasilia, the International Seminar on Modeling and costs. The event aimed to provide an overview of the model development costs in the region of the Americas and Brazil. Some meetings have taken since this time to discuss changes in the cost model with national operators.

In September 2013, Anatel submitted for public comment a draft of its rule on pricing of STFC and PCS interconnection, as well as EILD, based on a cost model. Such rule and the corresponding reference amounts are still under development by Anatel. According to the proposal submitted for public comment, reference amounts based on cost model will come into force in 2016, and were to be published by the Agency by December 2013. Although such referent amounts based on cost model have yet to be published publication did not occur, they are expected to be released by Anatel in 2014.

See – “Interconnection Regulation.”

Migration of the Mobile Networks with Analog Technology

In February 2011, Anatel approved Resolution No. 562/11, which modified a provision of the regulation on conditions of use of radiofrequencies, determining that, after a period of 360 days from the publication, the use of analog

technology in radiofrequencies sub bands of 800 MHz would no longer be allowed.

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

The implementation of the RuralCel service was carried out by the companies in the Telebrás system, prior to the privatization process in 1998. Once the privatization of these companies was completed, SMC operators are

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required to keep sharing such infrastructure (mobile networks with analog technology) with STFC concessionaires with rural subscribers. There is a dispute with STFC concessionaires as to the compensation payable for the availability of the RuralCel support network.

Anatel decided to temporarily postpone shutting down this service, but only until March 2016. We continue to interact with the regulating agency regarding the shutdown of our analog mobile networks.

Regulation of Quality

In October 2011, Anatel published PCS and SCM quality management regulations to establish quality parameters which were to have been met by the mobile telephone and Internet connection operators in up to 12 months. Most quality parameters established became effective in October and November 2012.

Among such quality parameters, most notable are the ones relating to the quality of the networks, both mobile and fixed, creating obligations of minimum and average speeds in numbers, higher than those currently used by operators, which required investments so that such obligations could be met.

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

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

With regard to STFC, Anatel approved in December 2012 the Quality Management Regulation for STFC service providers, the purpose of which is the creation of a new quality management model available, such as Quality Management Regulation for PCS and SCM.

In February 2013, Anatel published STFC quality management regulations to establish quality parameters which should be met by fixed telephone operators in 120 days. All parameters established became effective in June 2013.

Consolidation of TIM and Intelig STFC Licenses

With the acquisition of Intelig by TIM Participações, we were required to eliminate the existing overlapping licenses in order to abide by regulations. We were given 18 months to implement these changes, beginning on the date of closing of the transaction. This term was later extended for an additional 12 months, expiring on June 30, 2012.

On December 30, 2011 we filed petitions with Anatel to authorize the consolidation of our STFC license terms in the local mode under Intelig and STFC LDN and LDI under TIM. On June 30, 2012 we returned CSP 23 to Anatel, keeping the operation of STFC LDN and LDI bound to CSP 41 TIM Celular S.A. license, whereas Intelig keep the STFC local license.

The amendments to the STFC Instrument of Authorization executed between TIM/Intelig and Anatel providing on the foregoing statutes were published on October 26, 2012.

On August 29, 2012, the companies TIM Fiber SP and TIM Fiber RJ formalized before Anatel their waiver of SCM exploration authorizations. Promptly thereafter, both companies were merged into TIM Celular S.A, which is already authorized to provide such services. Anatel terminated the SCM authorizations held by TIM Fiber SP and TIM Fiber RJ. Upon absorption of TIM Fiber SP and TIM Fiber RJ, TIM Celular S.A, as successor in interest, became the

provider of the services previously provided by these companies.

Inclusion of ninth digit in several areas

In December 2010, Anatel published Resolution No. 553/2010, determining the inclusion of one more digit for mobile numbers in the 011 area code region, which includes the city of São Paulo and neighboring cities. The

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change requires users to add the digit 9 to the beginning of existing mobile numbers. Anatel's decision to add one more digit to mobile phone numbers in the 011 area code was intended to increase the availability of numbers in the metropolitan area of São Paulo from 37 million to 90 million, as it is expected that availability of mobile numbers would end by 2013 at the current rate of subscription growth. The ninth digit was successfully implemented on July 29, 2012.

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

After July 29, 2012, calls to mobile numbers using the 8 digits were still completed for a 90-day period, to allow networks and users to adapt. During these 90 days, operators implemented gradual interceptions and users received messages with guidance on how to dial. After this transition period, calls to mobile numbers dialed with 8 digits were no longer completed.

The ninth digit was implemented in all the remaining areas of the state of São Paulo on August 25, 2013, and in the states of Rio de Janeiro and Espírito Santo on October 27, 2013. Anatel has defined the terms for implementing the ninth digit in PCS in other locations in Brazil, as follows:

| Term | State | National Codes |
|-------------------|--|--|
| January 31, 2014 | Espírito Santo and Rio de Janeiro | 21, 22, 24, 27, and 28 |
| December 31, 2014 | Amapá, Amazonas, Maranhão, Pará, and Roraima | 91, 92, 93, 94, 95, 96, 97, 98, and 99 |
| December 31, 2015 | Alagoas, Bahia, Ceará, Minas Gerais, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, Sergipe | 31, 32, 33, 34, 35, 37, 38, 71, 73, 74, 75, 77, 79, 81, 82, 83, 84, 85, 86, 87, 88, and 89 |
| December 31, 2016 | Acre, Distrito Federal, Goiás, Mato Grosso, Mato Grosso do Sul, Paraná, Rio Grande do Sul, Rondônia, Santa Catarina, Tocantins | 41, 42, 43, 44, 45, 46, 47, 48, 49, 51, 53, 54, 55, 61, 62, 63, 64, 65, 66, 67, 68, and 69 |

Anatel Administrative Proceedings

Under the terms of its PCS authorization, TIM Celular implemented mobile personal telecommunications coverage for the assigned area. Under such term of authorization, TIM Celular is required to operate in accordance with the quality standards established by Anatel. If it fails to meet the minimum quality standards required, TIM Celular is subject to Obligation Non-Compliance Determination Procedures, or PADO, and applicable penalties. Anatel has brought administrative proceedings against the TIM Group for (1) noncompliance with certain quality service indicators (PGMQ); and (2) default of certain other obligations assumed under the Terms of Authorization and pertinent regulations (Resolution n°.477). In its defense before Anatel, the TIM Group 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 (incorporated in the Federative Republic of Brazil and headquarters located in the State of São Paulo), and Intelig (incorporated in the Federative Republic of Brazil and headquarters located in the State of Rio de Janeiro).

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The following chart illustrates our current ownership structure:

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, 2013, we had 124 MGW, 79 MSC-S, 412 radio controller stations, 9,074 B Nodes, 911 eB Nodes, 12,473 BTS and approximately 47,000 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed. On December 31, 2013, we owned approximately 202,752 square meters and leased approximately 1,231,486 square meters of real property, all of which were available for installation of our equipment. We also lease approximately 158,777 square meters and owns approximately 70,201 square meters of office space. There are no material encumbrances that may affect our utilization of our property or equipment. For the years 2014 through 2016, we plan to invest up to R\$11 billion in capital expenditures, according to our strategic plan presented to Anatel in 2013, around 90% of which will be invested in constructing, expanding, improving and buying network improvements, such as deploying more antennas and adding capacity to the antennas we already own.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

Our first financial statements prepared in accordance with IFRS were those as of and for the year ended December 31, 2010. These financial statements were filed with the CVM and made publicly available in Brazil.

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

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2013, 2012 and 2011 included in this annual report that have been prepared in accordance with IFRS, issued by IASB as well as with the information presented under "Item 3. Key Information—A. Selected Financial Data."

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Brazilian Political and Economic Overview

During 2013, the continued uncertainty in Europe, particularly in Greece, Spain, Italy and Portugal, intensified concerns regarding the fiscal sustainability and risk of sovereign default of those countries, reducing the confidence of international investors and bringing volatility to the markets. Further, although the U.S. growth for the remainder of 2013 remained low given higher savings requirements, tighter fiscal policy and low global growth rates. The continued financial deterioration of these countries appears to have impaired the global economy and, in consequence, economic growth in Brazil decelerated in 2013, with GDP growing just 2.3% annually. Nevertheless, domestic demand remains strong and consumption is on pace with recent growth, which is also affecting inflation.

The official inflation rate was 5.91% in 2013, above both the 5.84% recorded in 2012 and the 4.5% rate targeted by the Central Bank, though falling within the “oscillating” band of plus or minus two percentage points considered acceptable by the Central Bank. Inflation was negatively impacted by food and transportation, which increased 8.48% and 3.29%, respectively.

Efforts by the Brazilian government to stimulate the economy were reversed in 2013 due to inflationary pressure. As of December 31, 2013, the SELIC rate was 10.00%.

Inflation directly impacts our results of operations, as certain of our assets and liabilities are subject to inflation adjustment, although the impact of these adjustments has not been material during the reported periods. In 2013, the net impact of inflation adjustments was a loss of R\$57.3 million and in 2012 was a gain of R\$3.4 million. The loss in 2013 can be explained by losses due to inflation adjustment on provisions for regulatory contingencies and, to a lesser extent, inflation adjustments on a R\$116 million loan from BNDES, offset in part by adjustment gains on judgments awarded to us and, to a substantially lesser extent, inflation adjustment gains on contracts.

In addition to the foregoing direct impacts, if inflation rises, disposable income of families may decrease in real terms, leading to lack of purchasing power among our customer base. Measures to combat inflation, such as a tight monetary policy with high interest rates, result in restrictions on credit and short-term liquidity, further decreasing the purchasing power of our customers.

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

The Brazilian current account closed the year with a deficit of U.S.\$81.37 billion or 3.66% of GDP, an increase in the deficit from 2012 when the deficit reached U.S.\$60.24 billion. The 2013 deficit was the highest recorded since the Central Bank began recording this metric in 1947. The primary cause for this result was the decrease of 86.6% in the trade balance surplus. Direct external investments totaled U.S.\$100.59 billion, an increase of U.S.\$10.22 billion compared to 2012.

The trend of a depreciating real reversed temporarily in the first quarter of 2013, with the real reaching R\$1.95 per U.S.\$1.00 in early March 2013, only to continue its depreciation throughout much of the rest of the year, ending the year at R\$2.34 per U.S. \$1.00. By December 31, 2013, the U.S. dollar had appreciated 15.37% versus the real.

The 2013 balance of payments registered a deficit of U.S.\$4.9 billion, representing a 125.9% decrease when compared to the surplus of U.S.\$18.9 billion registered in 2012.

After the expansion of government expenditures and decrease in government surplus in 2010, which was influenced by the electoral year, the government surplus increased. In 2011, the accumulated surplus reached R\$93.5 billion, as

compared to R\$78.8 billion accumulated in 2010, an increase of 18.7%. As a share of GDP, government expenditures decreased from 21.1% in 2010 to 20.7% in 2011. In 2012, the accumulated surplus reached R\$88.5 billion, as compared to R\$93.5 billion accumulated in 2011, a decrease of 5.3%. As a share of GDP, government expenditures rose from 20.7% in 2011 to 21.5% in 2012.

The Brazilian mobile market reached 271.1 million lines nationwide at the end of December 2013, corresponding to a penetration ratio of 136.4% (compared to 132.8% in 2012) and an annual growth rate of 3.5% (compared to 8.1% in 2012). Brazil is the fifth largest mobile telephony market in the world, and telephony is

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currently the most common means of communication in Brazilian households among all social classes. According to Anatel, mobile market net adds reached 9.3 million in 2013 which represents a 52.5% downturn from 2012's 19.6 million net adds. Prepaid subscribers continue to represent the greatest part of total subscriber base, reaching 211.6% by the end of 2013.

Our subscriber base ended 2013 with 73.4 million clients, a 4.3% increase from 2012, corresponding to a market share of 27.1%, making us the second largest mobile operator in the market. Our prepaid business reached 61.1 million clients (an 2.5% increase from 2012), maintaining the position of leader in this important business. Our postpaid business had 12.3 million users at the end of 2013, a 14.6% increase from 2012. With regard to our client mix, postpaid clients accounted for 15.8% of our total subscriber base, compared to 15.2% in 2012. In 2013, we added 3.1 million customers, down from 6.3 million in 2012. Our ARPU was R\$18.6 in 2013. On a yearly basis, ARPU saw a decline of 2.4%, partially attributed to the VU-M cut and long distance calls commoditization.

ARPU is a key performance indicator which is calculated for any period as total net service revenue divided by average customer base. In 2013, our average customer base, calculated as the simple mean of monthly averages, increased 5.3% to 71.7 million, compared to 68.0 million customers in 2012.

The following table shows the total average number of customers during 2013, 2012 and 2011.

| | Year ended December 31, | | |
|---|-------------------------|--------|--------|
| | 2013 | 2012 | 2011 |
| | (in thousands of users) | | |
| Average number of customers using postpaid plans(1) | 11,152 | 10,004 | 8,263 |
| Average number of customers using prepaid plans(1) | 60,564 | 58,042 | 48,457 |
| Total number of customers(1) | 71,714 | 68,046 | 56,720 |

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

Factors Affecting the Comparability of our Results of Operations

Acquisition of AES Atimus

On July 8, 2011, our wholly-owned subsidiary TIM Celular entered into an agreement with Companhia Brasileira de Energia and AES Elpa (the AES Group in Brazil) for the purchase of all of AES Elpa's equity interests in Eletropaulo Telecomunicações and 98.3% of the interest of AES RJ. We completed the acquisition on October 31, 2011, after all conditions precedent were satisfied and certain regulatory approvals obtained. We paid a total of R\$1,074,179 thousand and R\$447,471 thousand, respectively, for each of Eletropaulo Telecomunicações and AES RJ. In connection with the acquisition, Eletropaulo Telecomunicações changed its corporate name to TIM Fiber SP Ltda., and AES RJ changed its corporate name to TIM Fiber RJ S.A., and we call the business, collectively, TIM Fiber. In August 2012, TIM Fiber was merged into TIM Celular. In connection with such merger, TIM Celular assumed TIM Fiber's service obligations, thereby ensuring continuity of services.

The AES Atimus Acquisition has allowed us to expand our operations in the household broadband and high-speed data communications markets, thereby permitting us to offer new products to our customers including our Live TIM service, a high quality ultra-broadband available to households in Rio de Janeiro and São Paulo. The AES Atimus Acquisition also provided a reduction in infrastructure rental costs, while helping us to obtain significant synergies related to our existing fiber optic network. We continued throughout 2013 to expand the neighborhoods in Rio de Janeiro and São Paulo where our Live TIM service is available. In July 2013, Live TIM received the Customer

Service Innovation award from the magazine Global Telecom Business.

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

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

The table below summarizes the amount paid to acquire control of Eletropaulo Telecomunicações and AES RJ, as well as the fair value of the non-controlling interest at October 31, 2011, the acquisition date.

| As of October 31, 2011 | Provisional Amounts | |
|---|---------------------------------|---------|
| | Eletropaulo Telecomunicações | AES RJ |
| | (thousands of reais) | |
| Cash and cash equivalents | 1,074,179 | 447,471 |
| Fair value of non-controlling interest acquired | — | 7,938 |
| Total consideration | 1,074,179 | 455,409 |
| Net assets reported by the acquired company | 125,281 | 111,637 |
| Provisional goodwill reported | 948,898 | 343,772 |

Since this is a complex evaluation, we focused our efforts on identifying the main factors for completing the AES Atimus Acquisition and, as mentioned above, the main factors were the possibility of increasing product offerings in the corporate business line and the launch of residential broadband service, which we believe represents an opportunity for us to obtain a return on assets purchased in excess of the return currently earned by these businesses, and therefore are not allocated to any specific assets and liabilities, being instead recorded as goodwill. Based on management's assessment, the value of the purchase price premium is substantially composed of synergies, cost reductions and expected future profitability.

The purchase price allocations, or PPA, related to the AES Atimus Acquisition were concluded on October 31, 2012, and retroactively recorded in the Company's financial statements, as required under IFRS. The following tables summarize the effects recorded in the opening balance sheets of the companies acquired in the AES Atimus Acquisition.

| As of October 31, 2011 | Eletropaulo Telecomunicações | | |
|--|------------------------------|-------------|-----------------------|
| | Provisional Amounts | Adjustments | Definitive Amounts |
| | (thousands of reais) | | |
| Assets | | | |
| Cash and cash equivalents | 15,477 | — | 15,477 |
| Financial assets valued at fair value through income | 1,622 | — | 1,622 |
| Accounts receivable | 19,868 | — | 19,868 |
| Taxes recoverable | 20,916 | — | 20,916 |
| Deferred income tax and social contribution | 1,148 | 1,148 | 2,566 |
| Judicial deposits | 49 | — | 49 |
| Other assets | 374 | — | 374 |
| Property, plant and equipment | 164,198 | 54,600 | 218,798 |
| Intangible assets – client lists | — | 60,600 | 60,600 |
| Intangible assets – others | 9,196 | (4,172) | 5,024 |
| | 232,848 | 112,446 | 345,294 |
| Liabilities | | | |
| Loans and financing | (67,619) | — | (67,619) |
| Suppliers | (6,779) | — | (6,779) |

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| | | | |
|--|------------|-----------|------------|
| Labor obligations | (5,514) | — | (5,514) |
| Tax obligations | (19,937) | — | (19,937) |
| Deferred income tax and social contribution | (1,734) | (39,168) | (40,902) |
| Other liabilities | (5,973) | — | (5,973) |
| Provision for contingencies | (11) | — | (11) |
| | (107,567) | (39,168) | (146,735) |
| Identifiable net assets | 125,281 | 73,278 | 198,559 |
| Goodwill | | | |
| Goodwill (provisional) | 948,898 | | |
| Allocation of the surplus value of property, plant and equipment | (54,600) | | |
| Allocation of value of client list acquired | (60,600) | | |
| Write-off of development expenses capitalized | 4,172 | | |
| Effects of deferred taxes on the aforesaid adjustments | 37,750 | | |
| | (73,278) | | |
| Goodwill (definitive) | 875,620 | | |

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| As of October 31, 2011 | AES RJ | | Definitive Amounts |
|--|------------------------|-------------------------------------|-----------------------|
| | Provisional Amounts | Adjustments (thousands of reais) | |
| Assets | | | |
| Cash and cash equivalents | 3,496 | — | 3,496 |
| Accounts receivable | 18,156 | — | 18,156 |
| Taxes recoverable | 17,203 | — | 17,203 |
| Deferred income tax and social contribution | 1,024 | 14 | 1,038 |
| Judicial deposits | 63 | — | 63 |
| Other assets | 334 | — | 334 |
| Property, plant and equipment | 120,227 | 55,965 | 176,192 |
| Intangible assets – client lists | — | 34,600 | 34,600 |
| Intangible assets – others | 2,941 | (43) | 2,898 |
| | 163,444 | 90,536 | 253,980 |
| Liabilities | | | |
| Loans and financing | (22,024) | — | (22,024) |
| Suppliers | (6,063) | — | (6,063) |
| Labor obligations | (3,391) | — | (3,391) |
| Tax obligations | (18,012) | — | (18,012) |
| Deferred income tax and social contribution | (324) | (30,792) | (31,116) |
| Other liabilities | (1,933) | — | (1,933) |
| Provision for contingencies | (472) | — | (472) |
| | (52,219) | (30,792) | (83,011) |
| Identifiable net assets | 111,225 | 59,744 | 170,969 |
| Goodwill | | | |
| Goodwill (provisional) | 343,772 | | |
| Allocation of the surplus value of property, plant and equipment | (55,965) | | |
| Allocation of value of client list acquired | (34,600) | | |
| Write-off of development expenses capitalized | 43 | | |
| Effects of deferred taxes on the aforesaid adjustments | 30,778 | | |
| | (59,744) | | |
| Goodwill (definitive) | 284,028 | | |

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Goodwill amounts attributable to both Eletropaulo Telecomunicações and AES RJ are supported by the future profitability of these businesses, particularly the broadband businesses. As required for all goodwill, recoverability is tested annually through an impairment test.

In 2013, the impairment test utilized the “value in use” methodology, as further illustrated in Note 17 to our consolidated financial statements. Though the network synergies related to the AES Atimus Acquisition exist and may be used in the calculation of “value in use,” these amounts were not considered in the impairment tests, the results of which did not indicate the need to record an impairment provision. Furthermore, no reasonable change in assumptions would trigger an impairment.

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 Note 4(1) to our consolidated financial statements. We currently depreciate automatic switching, transmission and other equipment based on an estimated useful life of seven years.

We review our long-lived assets, such as goodwill, for impairment whenever events or circumstances indicate the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. At least annually, the Company applies the recoverability test on the recorded goodwill. The calculations were performed based on the discounted cash flow using as parameters the assumptions included in the Company’s three year industrial plan, growth rate compatible with our market conditions and a discount rate of between 12.5% and 13% per year.

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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.

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 2013 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 % |

* 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 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.

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

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

- TIM Celular had a history of losses;
- at the end of 2009, Brazil was expecting a presidential election in 2010, generating uncertainties in relation to longer future projections and taxation;
- at the end of 2009, the economy was still recovering from the worldwide financial crises, generating a strong level of uncertainties in longer term future projections. In addition, we believed there was significant uncertainty regarding the Brazilian economy, including with respect to domestic inflation and commodities prices; and
- 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 postpaid 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: (1) a substantial change in management (e.g. CEO, COO, CTO); (2) re-launching of the strategy and positioning of TIM in the market; (3) new and innovative services and products (“Infinity” and “Liberty”).

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

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

- 2010 final customer base of 51 million, showing an additional 4.6 million in new customers when compared to the projected customer base. Revenues were higher by approximately R\$200 million in comparison to projected revenues;
- efficiency plans effectiveness. During 2010, our costs and expenses were lower by approximately R\$250 million in comparison to the projected amounts, partially due to cost saving programs and partially due to synergies from Tim Nordeste merging process;

- success of the new products (“Infinity” and “Liberty”) launched during 2009;
- progressive exit from offering handset subsidies;

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- significant reduction of handsets classified as property, plant and equipment (handsets owned by the Company and provided free of charge to corporate customers) with consequent reduction in depreciation (actual depreciation amount in 2010 was lower by R\$300 million in relation to projected depreciation); and
- 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, as of December 31, 2010 we updated our business plan for the years 2011-2013 and subsequent projections based on our belief that future income generation would be higher than expected at the end of 2009. Based on the expected taxable income to be generated in future years and the growing stability of the economy after the uncertainty in 2009, at the end of 2010 we released in its entirety the valuation allowance for tax loss carry forwards related to our subsidiary TIM Celular that was recorded at December 31, 2009.

During the years ended December 31, 2011, 2012 and 2013, the Company continued to generate taxable income in line with projections approved in the 2010 business plan.

Asset Retirement Obligations

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

Contingent Liabilities

The accrual for a contingency involves considerable judgment to be performed by management. A contingency is “an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.”

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

Revenue Recognition

Revenues are recorded when services are rendered. As a result of our billing cycle cut-off times, we are required to make estimates for services revenue earned but not yet billed. These estimates, which are based primarily upon unbilled minutes of use, could differ from our actual calculation. See Notes 4(u) and 5(g) to our consolidated financial statements.

Results of Operations

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

- government policy and changes in the regulatory environment in Brazil;

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

The following table shows certain components of our statement of operations for each year in the three-year period ended December 31, 2013, as well as the percentage change from year to year.

| | Year ended December 31, | | | Percentage change | | | |
|--|-------------------------|-------------|-------------|-------------------|---|----------------|---|
| | 2013 | 2012 | 2011 | 2013 – 2012 | | 2012 – 2011 | |
| Net Operating Revenues | 19,921,291 | 18,763,947 | 17,085,977 | 6.2 | % | 9.8 | % |
| Cost of services and goods | (10,822,202) | (9,880,984) | (8,542,639) | 9.53 | % | 15.7 | % |
| Gross profit | 9,099,089 | 8,882,963 | 8,543,338 | 2.43 | % | 4.0 | % |
| Operating expenses: | | | | | | | |
| Selling expenses | (4,911,522) | (4,774,161) | (4,848,512) | 2.88 | % | (1.5) | % |
| General and administrative expenses | (1,012,556) | (1,029,943) | (963,394) | (1.69) | % | 6.9 | % |
| Other operating expenses | (736,138) | (755,489) | (669,093) | (2.56) | % | 13.2 | % |
| Total operating expenses | (6,660,216) | (6,559,593) | (6,480,999) | 1.53 | % | 1.2 | % |
| Operating income before financial results | 2,438,873 | 2,323,370 | 2,062,339 | 4.97 | % | 12.6 | % |
| Net financial income | (302,720) | (169,980) | (238,858) | 78.19 | % | (29.7) | % |
| Operating income before taxes | 2,136,153 | 2,153,480 | 1,823,481 | (0.8) | % | 18.1 | % |
| Income and social contribution tax benefit | (630,539) | (704,592) | (545,636) | (10.51) | % | 29.1 | % |
| Net income | 1,505,614 | 1,448,888 | 1,277,845 | 3.92 | % | 13.4 | % |

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Operating Revenues

Our operating revenues consisted of:

- monthly subscription charges;
- usage charges, which include roaming charges;

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

The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for each of 2013 and 2012:

| Statement of Operations Data: Operating Revenues | Year ended December 31, | | Percentage change 2013 – 2012 | |
|---|-------------------------|------------|-------------------------------|----|
| | 2013 | 2012 | | |
| | (in millions of reais) | | | |
| Monthly subscription charges and usage charges | 11,309.8 | 11,086.7 | 2 | % |
| Fixed services | 1,071.8 | 1,470.3 | (27.1 | %) |
| Interconnection charges | 3,760.8 | 3,969.1 | (5.2 |)% |
| Long distance charges | 3,332.9 | 3,217.9 | 3.6 | % |
| Value added services | 5,353.7 | 4,404.8 | 3.6 | % |
| Other service revenues | 236.3 | 201.3 | 17.3 | % |
| Gross operating revenues from services | 25,065.2 | 24,350.1 | 2.9 | % |
| Value added and other taxes relating to services | (5,588.3) | (5,277.8) | 5.9 | % |
| Discounts and returns on services | (2,777.8) | (2,652.3) | 4.6 | % |
| Net operating revenues from services | 16,701 | 16,420.0 | 1.7 | % |
| Sales of mobile handsets and accessories | 4,596.5 | 3,405.7 | 34.9 | % |
| Value added and other taxes on handset sales | (956.3) | (677.0) | 41.3 | % |
| Discounts and returns on handset sales | (419.9) | (384.7) | 9.2 | % |
| Net operating revenues from handset and accessory sales | 3,220.2 | 2,344.0 | 37.4 | % |
| Net operating revenues | 19,921.3 | 18,763.9 | 6.2 | % |

Our gross service revenue for the year ended December 31, 2013 was R\$25,065.2 million, representing a 2.9% increase from R\$24,350.1 million in the year ended December 31, 2012, mainly due to the growth in our customer base and consistently solid revenues from value added services. The gross handset revenue for the year ended December 31, 2013 was R\$4,596.5 million, a 35.0% growth over R\$3,405.7 million for the year ended December 31, 2012, resulting from increased smartphone penetration. Gross revenues for the year ended December 31, 2013 totaled R\$29,661.7 million, a 6.9% increase from the year ended December 31, 2012.

Net operating revenues increased 6.2% to R\$19,921.3 million in the year ended December 31, 2013 from R\$18,763.9 million in the year ended December 31, 2012 for the reasons described below.

Monthly Subscription Charges and Usage Charges

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Revenue from monthly subscription charges and usage charges was R\$11,309.8 million in the year ended December 31, 2013, a 2.0% increase from R\$11,086.7 million in the year ended December 31, 2012, due primarily to subscriber growth of 4.3%, which resulted in significantly higher outgoing voice traffic.

The total average monthly MOU for 2013 and 2012 were as follows:

| | Year ended December 31, | |
|-------------------|-------------------------|------|
| | 2013 | 2012 |
| Average total MOU | 148 | 136 |

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Fixed Services

Revenue from fixed services was R\$1,071.8 million in the year ended December 31, 2013, a 27.1% decrease from R\$1,470.3 million in December 31, 2012, mainly due to the restructuring of Intelig and the migration of fixed long distance revenues from Intelig to mobile long distance revenues in TIM Celular.

Interconnection Charges

Interconnection revenues consist of amounts paid to us by other mobile and fixed line providers for completion of calls and SMS on our network of calls and SMS originating on their networks. Our interconnection revenues were R\$3,760.8 million in the year ended December 31, 2013, a 5.3% decrease from R\$3,969.1 million in 2012, principally due to the popularity of our Infinity Torpedo SMS offer, as SMS messages initiated from the networks of other providers generate interconnection revenues, and partially offset by the fixed-to-mobile rate reductions imposed by Anatel in 2012. Interconnection as a percentage of total gross services revenues decreased 1.6% in the year ended December, 2013.

Long Distance Charges

Revenues from long distance charges increased 3.6% to R\$3,332.9 million in the year ended December 31, 2013 from R\$3,217.9 million in the year ended December 31, 2012, reflecting growth in our subscriber base, offset in part by decreased rates due to the continued commoditization of long distance service, particularly for prepaid services.

Value-Added Services

Value-added service revenues increased 21.5% to R\$5,353.6 million in the year ended December 31, 2013 from R\$4,404.8 million the year ended December 31, 2012, principally due to growth in the Infinity and Liberty Web data plans, as well as the increased contribution to revenues from Infinity Torpedo.

Value-added services include SMS, MMS, data transmission, downloads (wallpaper and ringtones), television access, voicemail, chat and others. SMS revenues represent a significant portion of our total value-added service revenues. Data transmission, supported by our 3G and 4G networks, is also a key component to our value-added service revenues, and we have focused on improving our position in this area through expanding partnerships, enhancing our smartphone portfolio, including through the addition of the iPhone 3GS, iPhone 4 and iPhone 5, and promoting our mobile broadband service through TIM web broadband.

Other Service Revenues

Revenues from other services increased 17.4% to R\$263.3 million in the year ended December 31, 2013 from R\$201.3 million in the year ended December 31, 2012, mainly due to the increase of SIM card sales.

Sales of Mobile Handsets

Sales of mobile handsets increased 35.0% to R\$4,596.5 million in the year ended December 31, 2013 from R\$3,405.7 million registered in the year ended December 31, 2012. This change was driven primarily by the enhancement of our handset mix with a focus on sales of Internet enabled phones (smartphones and webphones), increasing the average price of handsets sold.

Value-Added and Other Taxes Relating to Services

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

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

Our value-added and other taxes relating to services and handset sales was R\$6,544.6 million in the year ended December 31, 2013 compared to R\$5,954.8 million in the year ended December 31, 2012, an increase of 9.9%.

Discounts on services and handset sales increased 5.23% to R\$3,195.8 million in the year ended December 31, 2013 compared to R\$3,037 million in the year ended December 31, 2012. This was mainly related to our offering on voice plans.

Costs of Services and Goods

Costs of services and goods increased by 9.5% to R\$10,822.2 million in the year ended December 31, 2013 from R\$9,881.0 million in the year ended December 31, 2012, mainly due to the enhancement of our handset mix, with smartphone sales reaching 80% of total sales in 2013 compared to 65% in 2012. The following table shows the components of costs of services and goods for each of the periods indicated.

| Statement of Operations Data: Costs of services and goods | Year ended December 31, | | Percentage change | |
|---|-------------------------|------------|-------------------|------|
| | 2013 | 2012 | 2013 - | 2012 |
| | (in millions of reais) | | | |
| Depreciation and amortization | (2,097.9) | (1,862.0) | 12.67 | % |
| Interconnection, circuit leasing and related expenses | (4,518.9) | (4,659.1) | (3.01) |)% |
| Third party services | (403.2) | (385.4) | 4.65 | % |
| Personnel | (61.1) | (61.6) | 0.8 | % |
| Rental and insurance | (358.9) | (277.5) | 29.36 | % |
| FISTEL tax and other | (31.2) | (30.5) | 7.68 | % |
| Total cost of services | (7,471.4) | (7,276.0) | 2.68 | % |
| Cost of handsets and accessories sold | (3,350.8) | (2,605.0) | 28.6 | % |
| Total cost of services and goods | (10,822.2) | (9,881.0) | 9.5 | % |

Depreciation and Amortization

Depreciation and amortization expenses grew 12.67% to R\$2,097.9 million in the year ended December 31, 2013 from R\$1,862.0 million in the year ended December 31, 2012, mainly due to an increase in general capital expenditures as explained in more detail in “—B. Liquidity and Capital Resources.”

Interconnection, Circuit Leasing and Related Expenses

Interconnection, circuit leasing and related expenses consist of the amount paid to fixed-line and other mobile service providers for termination of our outgoing calls on their networks as well as lease payments to fixed carriers for the use of their network. Interconnection, circuit leasing and related expenses costs decreased 3.01% to R\$4,518.9 million in the year ended December 31, 2013 from R\$4,659.1 million in the year ended December 31, 2012, mainly due to the 15.15% increase of total traffic as the result of growth in our subscriber base.

Third Party Services

Third party services costs were R\$403.2 million in the year ended December 31, 2013, increasing 4.65% from R\$385.4 million incurred in the year ended December 31, 2012, mainly due to higher costs of maintaining our network.

Personnel

Personnel costs decreased 0.8% to R\$61.1 million in the year ended December 31, 2013 from R\$61.6 million in the year ended December 31, 2012.

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Rental and Insurance

Rental and insurance costs increased 29.36% to R\$358.9 million in the year ended December 31, 2013 from R\$277.5 million in the year ended December 31, 2012. This increase is due primarily to an increased number of leased sites.

FISTEL Tax and Other

FISTEL tax and other costs increased 7.68% to R\$31.2 million in the year ended December 31, 2013 from R\$30.5 million in the year ended December 31, 2012, due primarily to higher tax payments. FISTEL tax is directly related to customer base, and our customer base increased, therefore FISTEL tax accordingly increased. Other taxes to which we are subject vary depending on revenues, which also increased.

Costs of Handsets and Accessories Sold

The cost of handsets and accessories sold in 2013 was R\$3,350.8 million, representing a 28.6% increase from R\$2,605.0 million in the year ended December 31, 2012. This growth is attributable to an increase in smartphone sales in our handset mix, reaching 70% of total sales in 2013, and to a higher volume of handsets sold.

Gross Profit Margins

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

| Statement of Operations Data: Gross profit | Year ended December 31, | | Percentage change | |
|--|-------------------------|------------|-------------------|---|
| | 2013 | 2012 | 2013 - 2012 | |
| | (in millions of reais) | | | |
| Net operating revenues from services | 16,701.1 | 16,420.0 | 1.7 | % |
| Cost of services | (7,471.4) | (7,276.0) | 2.68 | % |
| Gross profit from services | 9,229.7 | 9,143.9 | 1.0 | % |
| Net operating revenues from sales of mobile handsets and accessories | 3,220.2 | 2,344.0 | 38 | % |
| Cost of goods | (3,350.8) | (2,604.9) | 28.63 | % |
| Gross loss from sales of mobile handsets and accessories | (130.6) | (260.9) | (49.9) | % |
| Gross profit | 9,099.1 | 8,883.0 | 2.4 | % |

Our gross profit margin from services (gross profit as a percentage of net service revenues) decreased from 55.69% in the year ended December 31, 2012 to 55.26% in the year ended December 31, 2013. This performance is mainly explained by the VU-M reduction of nearly 11% since the end of April 2013, which had a negative impact on gross profit margin from services throughout the year.

Our negative gross margin for sales of mobile handsets and accessories decreased from negative 11.13% in the year ended December 31, 2012 to negative 4.05% in the year ended December 31, 2013. This decrease is mainly attributable to a better negotiation approach with suppliers, which was possible after focusing on a smaller but more attractive handset mix, and to lower costs related to sales despite the higher sales volume.

Our overall gross profit margin increased from 54.09% in the year ended December 31, 2012 to 54.48% in December 31, 2013. This resulted primarily from a lower negative gross profit margin from handsets.

Operating expenses

The following table shows our operating expenses, as well as the percentage change from year to year of each component, for the years ended December 31, 2013 and 2012:

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| Statement of Operations Data: Operating expenses | Year ended December 31, | | Percentage change | |
|--|-------------------------|------------|-------------------|------|
| | 2013 | 2012 | 2013 – | 2012 |
| | (in millions of reais) | | | |
| Selling expenses | (4,911.5) | (4,774.1) | 2.88 | % |
| General and administrative expenses | (1,012.5) | (1,029.9) | (1.68 |)% |
| Other operating expenses, net | (736.1) | (755.5) | (2.56 |)% |
| Total operating expenses | (6,660.2) | (6,559.6) | 1.53 | % |

Our total operating expenses increased slightly by 1.53% to R\$6,660.2 million in the year ended December 31, 2013 from R\$6,559.6 million in December 31, 2012, mainly due to the factors described below.

Selling Expenses

Selling expenses increased 2.88%, to R\$4,911.5 million in the year ended December 31, 2013 from R\$4,774.1 million in the year ended December 31, 2012, mainly due to more gross additions during 2013 (3.1% higher when compared to 2012) which was offset in part by an efficient “go to market” approach which contributed to a reduction in our subscriber acquisition cost (commissioning, advertisement and subsidy) of 6.1% in 2013, to R\$27.6 per gross addition.

General and Administrative Expenses

General and administrative expenses decreased by 1.68% to R\$1,012.5 million in the year ended December 31, 2013 from R\$1,029.9 million in the year ended December 31, 2012, as a result of a reduction in the depreciation and amortization of assets acquired in 2008 that were depreciated over 5 years and partially offset by higher personnel expenses due to an increased headcount in 2013.

Other Operating Expenses, Net

Other net operating expenses decreased by 2.56% to R\$736.1 million in the year ended December 31, 2013 from R\$755.5 million in the year ended December 31, 2012. This decrease was mainly due to a reduction in FIST/FUNTEL expenses (which are different than FISTEL taxes, which increased in the period, as described above).

Net Financial Expense

We had net financial expense of R\$302.7 million in the year ended December 31, 2013, from a net financial expense of R\$169.9 million in the year ended December 31, 2012. The variation was due principally to an increase in the SELIC interest rate and higher volatility of the real in relation to foreign currencies.

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, 2013 under tax law. We recorded income and social contribution tax of R\$630.5 million in the year ended December 31, 2013, a decrease of 10.5% when compared to R\$704.6 million recorded for the year ended December 31, 2012, due mainly to better fiscal efficiency and other incentives.

Net Income

Our net income in the year ended December 31, 2013 was R\$1,506 million, representing an increase of R\$56.7 million or 3.9% from a net income of R\$1,448.9 million in the year ended December 31, 2012.

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Results of Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

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

The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for each of 2012 and 2011:

| Statement of Operations Data: Operating Revenues | Year ended December 31, | | Percentage change | |
|---|-------------------------|------------|-------------------|------|
| | 2012 | 2011 | 2012 - | 2011 |
| | (in millions of reais) | | | |
| Monthly subscription charges and usage charges | 11,086.7 | 10,264.7 | 8.0 | % |
| Fixed services | 1,470.3 | 1,525.4 | (3.6 | %) |
| Interconnection charges | 3,969.1 | 3,849.4 | 3.1 | % |
| Long distance charges | 3,217.9 | 3,181.2 | 1.2 | % |
| Value added services | 4,404.8 | 3,166.4 | 39.1 | % |
| Other service revenues | 201.3 | 229.8 | (12.4 | %) |
| Gross operating revenues from services | 24,350.1 | 22,217.1 | 9.6 | % |
| Value added and other taxes relating to services | (5,277.8) | (4,861.3) | 8.6 | % |
| Discounts and returns on services | (2,652.3) | (2,002.5) | 32.4 | % |
| Net operating revenues from services | 16,420.0 | 15,353.2 | 6.9 | % |
| Sales of mobile handsets and accessories | 3,405.7 | 2,540.5 | 34.1 | % |
| Value added and other taxes on handset sales | (677.0) | (524.0) | 29.2 | % |
| Discounts and returns on handset sales | (384.7) | (283.7) | 35.6 | % |
| Net operating revenues from handset and accessory sales | 2,344.0 | 1,732.8 | 35.3 | % |
| Net operating revenues | 18,764 | 17,086 | 9.8 | % |

Our gross service revenue for the year ended December 31, 2012 was R\$24,350 million, representing a 9.6% increase from R\$22,217 million in the year ended December 31, 2011, mainly due to the growth in our customer base and

consistently solid revenues from value added services. The gross handset revenue for the year ended December 31, 2012 was R\$3,405 million, a 34.1% growth over R\$2,541 million for the year ended December 31, 2011, resulting from increased smartphone penetration. Gross revenues for the year ended December 31, 2012 totaled R\$27,756 million, a 12.1% increase from the year ended December 31, 2011.

Net operating revenues increased 9.8% to R\$18,764 million in the year ended December 31, 2012 from R\$17,086 million in the year ended December 31, 2011.

Monthly Subscription Charges and Usage Charges

Revenue from monthly subscription charges and usage charges was R\$11,087 million in the year ended December 31, 2012, a 8.0% increase from R\$10,265 million in the year ended December 31, 2011, due primarily to subscriber growth of 9.7%, which resulted in significantly higher outgoing voice traffic.

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The total average monthly MOU for 2012 and 2011 were as follows:

| | Year ended December 31, | |
|-------------------|-------------------------|------|
| | 2012 | 2011 |
| Average total MOU | 136 | 129 |

Fixed Services

Revenue from fixed services was R\$1,470 million in the year ended December 31, 2012, a 3.6% decrease from R\$1,525.4 million in December 31, 2011, mainly due to the restructuring of Intelig and the migration of long distance revenues from Intelig to TIM Celular.

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\$3,969 million in the year ended December 31, 2012, a 3.1% increase from R\$3,849 million in 2011, principally due to the popularity of our Infinity Torpedo SMS offer, partially offset by the fixed-to-mobile rate reductions imposed by Anatel in 2012. Interconnection as a percentage of total gross services revenues decreased 1.0% in the year ended December 2012.

Long Distance Charges

Revenues from long distance charges increased 1.2% to R\$3,217.9 million in the year ended December 31, 2012 from R\$3,181.2 million in the year ended December 31, 2011, reflecting growth in our subscriber base, partly offset by decreased rates due to the continued commoditization of long distance service, especially for prepaid services.

Value-Added Services

Value-added service revenues increased 39.1% to R\$4,404.8 thousand in the year ended December 31, 2012 from R\$3,166.4 thousand the year ended December 31, 2011, principally due to growth in the Infinity and Liberty Web data plans, as well as the positive contribution of Infinity Torpedo.

Value-added services include SMS, multimedia message services (MMS), data transmission, downloads (wallpaper and ringtones), television access, voicemail, chat and others. SMS revenues represent a significant portion of our total value-added service revenues. Data transmission, supported by our 3G network, is also a key component to our value-added service revenues, and we have focused on improving our position in this area through expanding partnerships, enhancing our smartphone portfolio, including through the addition of the iPhone 3GS, iPhone 4 and iPhone 5, and promoting our mobile broadband service through TIM web broadband.

Other Service Revenues

Revenues from other services decreased 12.4% to R\$201.3 million in the year ended December 31, 2012 from R\$229.8 million in the year ended December 31, 2011. This was mainly due to lower gross additions, followed by a decrease on SIM card sales.

Sales of Mobile Handsets

Sales of mobile handsets increased 34.1% to R\$3,405.7 million in the year ended December 31, 2012 from R\$2,540.5 million registered in the year ended December 31, 2011. This change was driven primarily by the enhancement of our

handset mix with a focus on sales of Internet enabled phones (smartphones and webphones), increasing the average price of handsets sold, offsetting a decrease in volume of 13.2% in handset sales in 2012 when compared to 2011.

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Value-Added and Other Taxes Relating to Services

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

Our value-added and other taxes relating to services and handset sales was R\$5,954.8 million in the year ended December 31, 2012 compared to R\$5,385.3 million in the year ended December 31, 2011, an increase of 10.6%.

Discounts on services and handset sales increased 32.8% to R\$3,037.0 million in the year ended December 31, 2012 compared to R\$2,286.2 million in the year ended December 31, 2011. This was mainly related to our offering on voice plans.

Costs of Services and Goods

Costs of services and goods increased by 15.7% to R\$9,881.0 million in the year ended December 31, 2012 from R\$8,542.6 in the year ended December 31, 2011, mainly due to the enhancement of our handset mix, with smartphone sales reaching 72.6% of total sales in 2012 compared to 61.4% in 2011, offsetting a 13.2% reduction in volume of handsets sold, as well as strong growth in total traffic, which drove the costs of services increase. The following table shows the components of costs of services and goods for each of the periods indicated.

| Statement of Operations Data: Costs of Services and Goods | Year ended December 31, | | Percentage change | |
|---|-------------------------|------------|-------------------|----|
| | 2012 | 2011 | 2012 - 2011 | |
| | (in millions of reais) | | | |
| Depreciation and amortization | (1,862.0) | (1,717.5) | 8.4 | % |
| Interconnection, circuit leasing and related expenses | (4,659.1) | (4,133.0) | 12.7 | % |
| Third party services | (385.4) | (324.1) | 18.9 | % |
| Personnel | (61.6) | (40.3) | 52.9 | % |
| Rental and insurance | (277.5) | (232.6) | 19.3 | % |
| FISTEL tax and other | (30.5) | (32.5) | (6.2) |)% |
| Total cost of services | (7,276.0) | (6,480.0) | 12.3 | % |
| Cost of handsets and accessories sold | (2,605.0) | (2,062.6) | 26.3 | % |
| Total cost of services and goods | (9,881.0) | (8,542.6) | 15.7 | % |

Depreciation and Amortization

Depreciation and amortization expenses grew 8.4% to R\$1,862.0 million in the year ended December 31, 2012 from R\$1,717.5 million in the year ended December 31, 2011, mainly due to a 12% increase in capital expenditures, of which 92% were related to organic outgrowth of infrastructure.

Interconnection, Circuit Leasing and Related Expenses

Interconnection, circuit leasing and related expenses consist of the amount paid to fixed-line and other mobile service providers for termination of our outgoing calls on their networks as well as lease payments to fixed carriers for the use of their network. Interconnection, circuit leasing and related expenses costs increased 12.7% to R\$4,659.1 million in

the year ended December 31, 2012 from R\$4,133.0 million in the year ended December 31, 2011, mainly due to the 28.0% increase of total traffic.

Third Party Services

Third party services costs were R\$385.4 million in the year ended December 31, 2012, increasing 18.9% from R\$324.1 million incurred in the year ended December 31, 2011, mainly due to the expansion of our own network through the FTTS (fiber-to-the-site) project, in addition to our acquisition of AES Atimus network, which required an increase in maintenance costs.

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Personnel

Personnel costs increased 52.8% to R\$61.6 million in the year ended December 31, 2012 from R\$40.3 million in the year ended December 31, 2011. The increase was due principally to our network expansion, requiring more staff.

Rental and Insurance

Rental and insurance costs increased 19.3% to R\$277.5 million in the year ended December 31, 2012 from R\$232.6 million in the year ended December 31, 2011. This increase is due primarily to an increased number of leased sites.

FISTEL Tax and Other

FISTEL tax and other costs decreased 6.2% to R\$30.5 million in the year ended December 31, 2012 from R\$32.5 million in the year ended December 31, 2011, due primarily to savings related to materials.

Costs of Handsets and Accessories Sold

The cost of handsets and accessories sold in 2012 was R\$2,605.0 million, representing a 26.3% increase from R\$2,062.6 million in the year ended December 31, 2011. This growth is attributable to an increase in smartphone sales in our handset mix, reaching 72.6% of total sales in 2012 compared to 61.4% in 2011, offsetting a 13.2% reduction in volume of handsets sold.

Gross Profit Margins

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

| Statement of Operations Data: Gross Profit | Year ended December 31, | | Percentage change | |
|--|-------------------------|------------|-------------------|---|
| | 2012 | 2011 | 2012 - 2011 | |
| | (in millions of reais) | | | |
| Net operating revenues from services | 16,420.0 | 15,353.2 | 6.9 | % |
| Cost of services | (7,276.0) | (6,480.0) | 12.3 | % |
| Gross profit from services | 9,143.9 | 8,873.2 | 3.1 | % |
| Net operating revenues from sales of mobile handsets and accessories | 2,344.0 | 1,732.7 | 35.3 | % |
| Cost of goods | (2,604.9) | (2,062.6) | 26.3 | % |
| Gross loss from sales of mobile handsets and accessories | (260.9) | (329.8) | (20.9) | % |
| Gross profit | 8,883.0 | 8,543.4 | 4.0 | % |

Our gross profit margin from services (gross profit as a percentage of net service revenues) decreased from 57.8% in the year ended December 31, 2011 to 55.7% in the year ended December 31, 2012. This performance is mainly explained by the VU-M reduction of roughly 13.6% since the end of February 2012, which had a negative impact on gross profit margin from services throughout the year.

Our negative gross margin for sales of mobile handsets and accessories decreased from negative 19.0% in the year ended December 31, 2011 to negative 11.1% in the year ended December 31, 2012. This decrease is mainly attributable to a better negotiation approach with suppliers, which was possible after focusing on a smaller but more attractive handset mix.

Our overall gross profit margin decreased, from 50.0% in the year ended December 31, 2011 to 47.3% in December 31, 2012. This resulted primarily from a lower gross profit margin from services.

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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, 2012 and 2011:

| Statement of Operations Data: Operating Expenses | Year ended December 31, | | Percentage change 2012 - 2011 | |
|--|-------------------------|------------|-------------------------------|---|
| | 2012 | 2011 | | |
| | (in millions of reais) | | | |
| Selling expenses | (4,774.1) | (4,848.5) | (1.5) | % |
| General and administrative expenses | (1,029.9) | (963.4) | 6.9 | % |
| Other operating expenses, net | (757.4) | (669.0) | 13.2 | % |
| Total operating expenses | (6,561.4) | (6,480.9) | 1.2 | % |

Our total operating expenses increased slightly by 1.24% to R\$6,561.5 million in the year ended December 31, 2012 from R\$6,457.1 million in December 31, 2011, mainly due to the factors described below.

Selling Expenses

Selling expenses decreased 1.5%, to R\$4,774.1 million in the year ended December 31, 2012 from R\$4,848.5 million in the year ended December 31, 2011, mainly due to fewer gross additions during 2012 (3.4% fewer when compared to 2011) and an efficient “go to market” approach which contributed to a reduction in our subscriber acquisition cost (commissioning, advertisement and subsidy) of 12.25% in 2012, to R\$29.42 per gross addition.

General and Administrative Expenses

General and administrative expenses increased 6.9% to R\$1,029.9 million in the year ended December 31, 2012 from R\$963.4 million in the year ended December 31, 2011, as a result of increased rental and personnel expenses due to an increased headcount in 2012.

Other Operating Expenses, Net

Other net operating expenses increased 13.2% to R\$757.4 million in the year ended December 31, 2012 from R\$648.0 million in the year ended December 31, 2011. This increase was mainly due to non-recurring expenses for contingencies in the third quarter of 2012. These expenses totaled R\$42.1 million, of which R\$16.1 million relate to provisions for advertising credits and R\$26.0 million relate to the provision for Anatel’s 2007-2009 administrative procedures.

Net Financial Expense

We had net financial expense of R\$168.0 million in the year ended December 31, 2012, from a net financial expense of R\$238.9 million in the year ended December 31, 2011. The variation was due principally to a reduction in the SELIC interest rate and lower volatility of the real in relation to foreign currencies.

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, 2012 under tax law. We recorded income and

social contribution tax of R\$704.6 million in the year ended December 31, 2012, 29.13% higher when compared to R\$545.6 million recorded for the year ended December 31, 2011. The increase in income and social contribution tax is largely due to (1) an increase in operational income before taxes of 18.1% compared to 2011, (2) a tax benefit of R\$67,977 thousand relating to the reduction of a deferred tax liability following the combination of Tim Fiber SP and Tim Fiber RJ into Tim Celular, and (3) recognition of a R\$34,000 thousand increase in tax provisions relating to differences attributable to depreciation at Intelig. The increase mentioned in (3) should have been recorded in 2011, however the amount is immaterial to the financial statements in both 2012 and 2011.

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Net Income

Our net income in the year ended December 31, 2012 was R\$1,448.9 million, representing an increase of R\$171.0 million or 13.4% from a net income of R\$1,277.8 million in the year ended December 31, 2011.

B. Liquidity and Capital Resources

We expect to finance our capital expenditures and other liquidity requirements for 2014 and 2015 with our cash, operating revenue, renewals of maturing indebtedness and new the existing credit line with BNDES of R\$5,700 million. At the annual general shareholders' meeting, held on April 10, 2014, the Company approved a capital budget proposal of R\$3.8 billion to be invested in two major areas: approximately 89% of such budget will be invested in evolution of the network and approximately 11% in business development. These investments will, among other benefits, help improve the delivery of services and growth of customer base. We believe that our current working capital is sufficient for our present requirements.

In 2013, TIM Celular received disbursements related to new loans totaling R\$1,139 million from (1) BNDES, for an amount of R\$412 million, (2) Bank of America for an amount of R\$276 million, (3) European Investment Bank for an amount of R\$136 million, (4) Cisco Capital for an amount of R\$114 million, (5) JP Morgan for an amount of R\$110 million and (6) Banco do Brasil, for an amount of R\$90 million.

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

In 2014, we plan to meet our financing needs through our current long-term facilities available with BNDES and renewal of short-term debt.

Sources of Funds

Cash from operations

Our cash flows from operating activities was R\$5,269,502 thousand in the year ended December 31, 2013 compared to R\$5,118,195 thousand in the year ended December 31, 2012. In the year 2013, the Infinity and Liberty Plans continued to be market leaders within plans using the unlimited calls concept.

We had other variations in our operational assets and liabilities which increased our cash from operations. The main variations of assets and liabilities were:

- Increase of accounts receivable in the amount of R\$3.9 million.
- Increase in accounts payable to suppliers in the amount of R\$895.9 million.
- Decrease in judicial deposits, or restricted assets of the Company placed on deposit with the Court and held in judicial escrow pending resolution of certain legal proceedings, in the amount of R\$134.1 million.

Liabilities also impacted our cash flow from operations. In 2013, we paid R\$644.2 million in taxes, fees and contributions.

Financial Contracts

We and our subsidiaries are parties to the financial contracts described below, each to be used for purposes of the development of our business, generally, unless otherwise expressly provided herein. With respect to loans denominated in currencies other than reais, we enter into currency swaps to hedge against exchange rate fluctuations.

- Credit Agreement, dated as of 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.

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The amount outstanding as of December 31, 2013, including accrued interest, was R\$23.0 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 0.75% 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 the guarantor of this promissory note. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Guarantees of Obligations of Our Subsidiaries.”

- Finance Contract, dated as of June 3, 2008, between European Investment Bank, as lender, TIM Celular S.A. and TIM Nordeste (incorporated by TIM Celular) S.A., as borrowers and TIM Participações as guarantor, in the total principal amount of €200 million fully disbursed, and fully swapped into local currency, between September 2009 and June 2010. The total outstanding amount as of December 31, 2013 converted from euros was R\$668.8 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 Itaú BBA for the principal amount of €200 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 10.23% plus the UMIPCA. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$386.0 million.
- Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Nordeste (incorporated by TIM Celular), as borrower, and TIM Participações as guarantor, in the principal amount of R\$202 million. The agreement, which matures on July 15, 2017, bears the average interest at a fixed rate of 2.03% plus the TJLP and the interest rate of 10.23% plus UMIPCA. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$128.7 million.
 - Credit Agreement, dated as of November 19, 2008 and amended on June 29, 2010, among BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$716.9 million, which R\$692.9 million was already disbursed, the undrawn value of the credit line was cancelled. The agreement, which matures on July 15, 2018 bears interest at (1) a fixed rate of 3.62% plus the TJLP or (2) fixed interest rate of 4.5% per annum. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$502.9 million.
- Credit Agreement, dated as of November 19, 2008, amended on December 12, 2008, June 29, 2010, and December 10, 2012, among BNDES, as lender and TIM Celular and Intelig, as borrowers, and TIM Participações as guarantor, in the principal amount of R\$3,674 million (a R\$2,164 increase in the credit limit was effected by way of amendment on December 10, 2012, of which R\$1,983 million is earmarked for TIM Celular and R\$181.4 million for Intelig for investments in 2012 and 2013). The agreement, which matures on December 15, 2019 bears interest at either (1) a fixed rate of 3.32% plus the TJLP; (2) TJLP or (3) fixed interest rate of 2.5% per annum. As of December 31 2012, the amount drawn down by TIM Celular under this credit agreement, including accrued interest, was R\$1,240.5 million and the amount drawn down by Intelig including accrued interest, was R\$128.0 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, 2013 converted from U.S. dollars was R\$224.4 million, including accrued interest. The agreement matures on December 2017 and bears an average cost of 95.01% of the CDI after hedging.

- Finance Contract, dated as of December 29, 2011, between European Investment Bank, as lender, TIM Celular S.A, as borrower and TIM Participações as guarantor, in the total principal amount of €100 million fully disbursed, and swapped into local currency. The total outstanding amount as of December 31, 2013, converted from euros was R\$289.6 million, including accrued interest. The agreement matures on August 2019, bear an average cost of 94.20% of the CDI after hedging. The bank guarantee was provided by SACE sPa. for the principal amount of €115 million.

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- Finance Contract, dated as of July 13, 2012, between European Investment Bank, as lender, TIM Celular S.A, as borrower and TIM Participações as guarantor, in the total principal amount of €100 million. The €50 million disbursed was swapped into local currency and the other €50 million was canceled by the company. The total outstanding amount as of December 31, 2013, converted from euros was R\$ 156.9 million, including accrued interest. The agreement matures on February 2020, bear an average cost of 96.50% of the CDI after hedging. The bank guarantee was provided by KFW IPEX-Bank GmbH for the principal amount of €52.5 million.
- Credit Agreement, dated as of September 18, 2012, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$150.0 million. The agreement, which matures on September 18, 2014, bears interest at a variable rate of 106.5% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$166.2 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of October 08, 2012, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$50.0 million. The agreement, which matures on October 08, 2012, bears interest at a variable rate of 105.6% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$55.2 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of December 17, 2012, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$150 million. The agreement, which matures on December 17, 2012, bears interest at a variable rate of 106.5% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$163.3 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of February 15, 2013, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$40 million. The agreement, which matures on February 13, 2015, bears interest at a variable rate of 106.5% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$43.1 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of February 15, 2013, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$22 million. The agreement, which matures on February 13, 2015, bears interest at a variable rate of 106.5% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$23.7 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of March 15, 2013, between BB as lender, TIM Celular, as borrower, in the principal amount of R\$28 million. The agreement, which matures on March 13, 2015, bears interest at a variable rate of 106.5% of the CDI. On December 31, 2013, the outstanding amount under this credit agreement, including accrued interest, was R\$29.9 million. No guarantees were issued under this loan.
- Master Loan Agreement, dated as of June 20, 2013, between Cisco Systems Capital Corporation, as lender, TIM Celular S.A., as borrower. The purpose of the loan is to finance TIM Celular's purchase of Cisco and third-party products and services. The loan to be given pursuant to the Master Loan Agreement was executed pursuant to a Facility Agreement, dated as of August 28, 2013, between Cisco Systems Capital Corporation, as lender, and TIM Celular S.A., as borrower, in the total principal amount of U.S.\$50 million. The total outstanding amount as of December 31, 2013 converted from U.S. dollars was R\$117.8 million, including accrued interest. The agreement matures in September 2018 and bears an average cost of 93.80% of the CDI after hedging. No guarantees were issued under this loan.
- Promissory Note, dated as of September 19, 2013, between JPMorgan Chase Bank, National Association, as lender, and TIM Celular S.A., as borrower, in the total principal amount of U.S.\$50 million. The total outstanding amount as of December 31, 2013 converted from U.S. dollars was R\$117.7 million, including accrued interest. The

agreement matures in September 2015 and bears an average cost of 101.50% of the CDI after hedging. No guarantees were issued under this loan.

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- Promissory Note, dated as of July 31, 2013, between Bank of America, N.A., as bank, TIM Celular S.A., as borrower, in the total principal amount of U.S.\$119.8 million. The total outstanding amount as of December 31, 2013 converted from U.S. dollars was R\$280.8 million, including accrued interest. The agreement matures on September 20, 2016 and has an average cost of 102,00% of the CDI after hedging. No guarantees were issued under this loan. The proceeds of the loan under the Promissory Note is to be entirely used for repayment of obligations under the Promissory Note issued by TIM Celular in favor of Bank of America on September 6, 2011.
- Credit Agreement, dated as of December 23, 2013, between BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$5,700 million. The agreement involves six credit lines, each of which has different conditions, interest rates and tenors: (1) Credit Line A, in an amount of R\$2,401 million, a fixed interest rate of 2.52% plus the TJLP and 8 years tenor; (2) Credit Line B, in an amount of R\$600.4 million, a fixed interest rate of 2.52% plus the SELIC and 8 years tenor; (3) Credit Line C, in an amount of R\$2,036 million, a fixed interest rate of 2.52% plus the TJLP and 8 years tenor; (4) Credit Line D, in an amount of R\$428 million, a fixed interest rate of 3.50% and 7 years tenor; (5) Credit Line E, in an amount of R\$189 million, a fixed interest rate of 1.42% plus the TJLP and 8 years tenor; and (6) Credit Line F, in an amount of R\$45 million, an interest rate of TJLP and 8 years tenor. Each credit line is to be used for specific purposes as set forth in the Credit Agreement.

See Notes 19 and 40 in our consolidated financial statements for a further description of such financing agreements.

Uses of Funds

Our principal uses of funds during the three year period ended December 31, 2013, were capital expenditures, payment of dividends to our shareholders, loan repayments and acquisition of companies including the AES Atimus Acquisition.

Investments in Fixed Assets

Our capital expenditures in 2013, 2012 and 2011, related primarily to:

- acquiring and developing our fiber optic network;
- deployment of our third and fourth generation (3G and 4G) 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, 2013, 2012 and 2011:

| Capital Expenditures Categories | Year ended December 31, | | |
|---------------------------------|-------------------------|------|------|
| | 2013 | 2012 | 2011 |
| | (in millions of reais) | | |

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| | | | |
|--|---------|---------|---------|
| Network | 2,767.8 | 2,457.9 | 2,081.7 |
| Information technology | 718.9 | 681.2 | 570.5 |
| Handsets provided to corporate customers (comodato) | 148.4 | 111.6 | 201.3 |
| Handsets provided to consumer customers (subsidiaries) | 0.0 | 0.0 | 8.3 |
| Other | 235.6 | 514.0 | 140.7 |
| Total capital expenditures | 3,870.7 | 3,764.7 | 3,002.4 |

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In response to PCS quality regulations initiated in March 2012, we submitted to Anatel a PCS improvements action plan, providing for a significant increase in investments for the improvement of service quality from 2012 to 2014 in the total amount of R\$9.5 billion. Most of the capital expenditures we budgeted for 2012 to 2014 relate to the expansion of the capacity and quality of our 3G technology and development of related infrastructure. The plan was reviewed by Anatel and envisions the investment of almost R\$8.2 billion in infrastructure alone. See “Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures.”

Dividends

Our Dividends are calculated in accordance with our By-laws and Brazilian corporate law. Pursuant to our By-laws, 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 corporate law and in accordance with our By-laws, “adjusted net income” is the amount equal to the net profit adjusted to reflect allocations to or from: (1) the legal reserve, and (2) a contingency reserve for probable losses, if applicable.

The following table contains a breakdown of the dividends and interest on shareholders’ equity actually paid (net of income taxes) by us to our shareholders during the years ended December 31, 2013, 2012 and 2011:

| Dividend Distribution (1) | Year ended December 31, | | |
|----------------------------------|-------------------------|-------|-------|
| | 2013 | 2012 | 2011 |
| | (in millions of reais) | | |
| Dividends | 843.3 | 743.0 | 533.4 |
| Interest on shareholders’ equity | – | – | – |
| Total distributions | 843.3 | 743.0 | 533.4 |

On April 10, 2014 our shareholders approved the distribution of R\$843.3 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2013 results. On April 11, 2013 our shareholders approved the distribution of R\$743.0 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2012 results. On April 11, 2012 our shareholders approved the distribution of R\$533.4 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2011 results. On April 11, 2011 our shareholders approved the distribution of R\$496.6 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2010 results.

C. Research and Development

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.

Patents and Licenses

We hold no material intellectual property assets. Telecom Italia owns the rights to the “TIM” trade name which is currently licensed to us.

D.

Trend Information

Customer Base and Market Share

In the year ended December 31, 2013, our subscriber base increased 4.3% to 73.4 million clients. This represented a market share of 27.1%. A significant concentration of our net additions was in Classes C and D, or the middle and lower-middle socioeconomic classes of Brazil, as defined by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística). Our prepaid business reached 61.1 million users in the

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year ended December 31, 2013, an increase of 2.5% from the year ended December 31, 2012. The number of our postpaid users was 12.3 million in the year ended December 31, 2013, a 14.6% increase from the year ended December 31, 2012.

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 new strategies within our customer classification approach, which we believe will continue to contribute to an increase in our subscriber base and high levels of customer retention.

Change of Mix Between Postpaid and Prepaid Customers

With respect to the composition of our clients, our postpaid customers accounted for 16.7% of our total subscriber base in the year ended December 31, 2013, compared to 15.2% from a year ago, largely due to the significant growth in our postpaid subscriber base.

Trends in Sales and Prices of Mobile Units and Service Plans

The volume of unit sales in the same period increased markedly due, in part, to the growth of handset and accessory use as an affordable alternative for Internet access for Classes C and D users and the substitution of fixed-line telephone services for mobile telephone services. As evidence of this trend, mobile Internet devices represented more than half of our total sales in 2013.

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. 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 (Índice de Serviços de Telecomunicações), a general price inflation index. The rates for our service plans, as well as a description of the main features of such plans, are set out in “Item 4. Information on the Company—B. Business—Mobile Service Rates and Plans.”

Average Revenue Per User (ARPU) Per Month

TIM’s ARPU registered R\$18.6 in the year ended 2013, an decrease of 7.0% when compared to an ARPU of R\$19.1 for the year ended December 31, 2012. The reduction in ARPU was principally due to the VU-M cut and continued long distance calls commoditization.

Revenues from value added services had an important role in offsetting ARPU’s downward trend of the market as a whole. In 2013 we registered a value-added service revenue growth of 21.5%, which accounted for 21.35% of total gross service revenue (compared to 18.1% registered in 2012). We anticipate that revenues from value-added services will continue to increase and become a larger component of our total service revenues, particularly based on the availability of our 3G and 4G offers (such as our mobile broadband solution). As the provision of value added services has a relatively low marginal cost, we anticipate that value added services will contribute to the growth of our operating margins.

Competitive Environment

Brazil has a competitive scenario that is almost unique in the world. The competition in the country’s mobile telephony sector has become more intense due to recent mergers and acquisitions. This market has been growing at a rapid pace compared not only to the telecom industry but also to other sectors of the economy. Brazil is one of the

few markets with four nationwide competitors, each with a market share between 18% 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 2013, despite a competitive landscape, our gross acquisition cost (per additional customer) was R\$35.8 for the year ended December 31, 2013, compared to R\$38.5 in the year ended December 31, 2012. The decrease of 7% reflects continued efficiency in the acquisition of prepaid and postpaid customers and our differentiated approach regarding handset subsidies and sales commissions. Our chip-only strategy sharply reduced the expenses related to handset subsidies and the restructuring of our sales commission policy and the adoption of new alternative sales channels decreased commission expenses.

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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 2013 continued to be marked by both the government's programs to encourage digital inclusion and the development of convergent services, recently inaccessible to the majority of the population.

The Brazilian mobile telephony market is the fifth largest in the world and reached a penetration level of 136.4 telephone lines for every 100 inhabitants in 2013, making mobile telephony the most widely used form of communication in Brazilian homes across all social classes. The prepaid portion of the mobile telecommunications market increased 0.3% in 2013 to 211.6 million accesses, which represents 78% of the total market. The postpaid portion of the industry reached 59.5 million lines in 2013, an increase of 16.9%. Growth factors for both sectors include increased access to credit and an expansion of the Brazilian middle class.

According to data published by Anatel, the fixed telephony sector showed slight growth of 0.7% in 2013 as compared to 2012, ending the year with 44.6 million lines, representing a penetration level of approximately 22.7 lines for each 100 inhabitants.

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 approximately 95% of the country's urban population, serving more than 3,400 municipalities. 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, 4G and High Speed Downlink Packet Access, or HSDPA.

E. Off-Balance Sheet Arrangements

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 off-balance sheet agreements:

| | |
|------|---------|
| 2014 | 515,901 |
| 2015 | 542,212 |
| 2016 | 566,611 |
| 2017 | 592,109 |

2018

618,753
2,835,586

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F. Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations and commercial commitments as of December 31, 2013:

| | Payments due by Period (in millions of reais) | | | | |
|----------------------------------|---|---------------------|-----------|-----------|----------------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
| Total borrowings (post hedge)(1) | 4,544 | 999 | 2,016 | 911 | 618 |
| Finance leases(2) | 323 | 10 | - | - | 313 |
| Total(3) | 4,867 | 1,009 | 2,016 | 911 | 931 |

(1) Considering the balances related to derivative financial instruments as of December 31, 2013.

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

(3) Other than as set forth herein (see, for example, Item 4. Information on the Company—B. Business Overview—Our Business), we have no capital lease obligations, unconditional purchase obligations, or other long-term liabilities reflected on our balance sheet of our primary financial statements. Interest is not included in long-term debt since it is subject to variable interest.

In 2014, we expect to have approximately R\$3.8 billion in capital expenditures relating to our subsidiaries. Most of the planned 2014 capital expenditures relate to extending TIM's infrastructure capacity and coverage, ensuring high quality levels and supporting the market strategies and updating and developing TIM's systems and technological platforms. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures."

Contingent Pension Liabilities

Until December 1999, we participated in a multi-employer defined benefit plan, or the Telebrás Pension Plan, that covered the employees of the Telebrás System who retired before the Breakup as well as those who continued working for the operating companies after the Breakup. We are contingently liable, jointly and severally, with the other New Holding Companies, for the unfunded obligations of the Telebrás Pension Plan with respect to all such employees who retired before January 30, 2000. In December 1999, we changed to a defined benefit plan (the "PBS Plan") that covers only those former employees of Telebrás who continued to be employed by us after December 1999. As of December 31, 2012, funded obligations related to Telebrás and PBS pension plans amounted to R\$7,770. See Note 41 to our consolidated financial statements.

In November 2002, we created a separate defined contribution plan, or 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.

SISTEL and TIMPREV

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

Given that in 1999 and 2000 the sponsors of the pension plans managed by SISTEL had already negotiated conditions for the creation of individual pension plans for each sponsoring company and the maintenance of joint liability only in relation to the participants already assisted on January 31, 2000, the Company and its subsidiaries, like other companies created as a result of the former Telebrás system, created in 2002 the TIMPREV Pension Plan, 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, or hereafter the Statutes of the TIMPREV

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Benefits Plan, as a defined contribution plan, which provide for new conditions for granting and maintaining benefits, as well as the rights and obligations of the Plan Managing Entity, the sponsoring companies, participants and the beneficiaries thereof.

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

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

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

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

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

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

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

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

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

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

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

In 2013, contributions to pension plans and other post-employment benefits amounted to R\$35.6 million. See Notes 4(p) and 41 to our consolidated financial statements.

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Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Board of Directors

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

Our Directors' duties and responsibilities are determined by Brazilian law, our By-laws (Estatuto Social) and our Disclosure and Corporate Governance Policy (Política de Divulgação/Negociação e Diferenças de Governança Corporativa da NYSE), as determined by CVM Instruction 358. All decisions taken by our Board of Directors are recorded in the board's minute books. The Board of Directors holds regular meetings once every quarter of the fiscal year and also holds special meetings whenever called by the chairman, by two directors or by the Chief Executive Officer. The chairman of the Board of Directors may also invite, at his discretion, any of our key employees to the Board of Directors' meetings, in order to discuss any relevant corporate matter. The Board of Directors has two special advisory committees: the Compensation Committee (Comitê de Remuneração) and the Control and Risks Committee (Comitê do Controle Riscos), both composed only of members of the Board of Directors. The Statutory Audit Committee also reports to the Board of Directors.

Members of our Board of Directors are required to comply with, and have agreed to comply with, our Disclosure and Corporate Governance Policy, our Code of Ethics and Conduct and certain other Brazilian law regulations including the "Regulamento para Observância dos Atos Anatel nº 68.276, de 31 de outubro de 2007, e nº 3.804, de 07 de julho de 2009," the "Regulamento para a observância do Acordo de 28 de abril de 2010 celebrado com o Conselho Administrativo de Defesa Econômica (CADE)" and the "Regulamento de Listagem do Novo Mercado da BM&FBOVESPA – Bolsa de Valores Mercadorias e Futuros."

The following are the current 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 2015:

| Name | Title | Date of Birth | Date Appointed |
|-----------------------------------|----------|------------------|----------------|
| Franco Bertone | Chairman | April 9, 1952 | April 11, 2013 |
| Maílson Ferreira da Nóbrega | Director | May 14, 1942 | April 11, 2013 |
| Adhemar Gabriel Bahadian | Director | October 22, 1940 | April 11, 2013 |
| Oscar Cicchetti | Director | June 17, 1951 | April 11, 2013 |
| Francesca Petralia | Director | August 30, 1953 | April 11, 2013 |
| Manoel Horácio Francisco da Silva | Director | July 16, 1945 | April 11, 2013 |
| Patrizio Graziani | Director | April 3, 1965 | April 11, 2013 |
| Piergiorgio Peluso | Director | March 25, 1968 | April 11, 2013 |
| Rodrigo Modesto de Abreu | Director | April 19, 1969 | April 11, 2013 |

Messrs. Nóbrega and Bahadian are qualified as independent directors according to Brazilian independence standards. They are scheduled to be re-elected or replaced at the annual shareholders' meeting to be held in 2015. Set forth below are brief biographical descriptions of the members of the Board of Directors.

Franco Bertone. Mr. Bertone holds a degree in Electronic Engineering. At Telecom Argentina, he acted as the Chief Operating Officer from August 2008 to March 2009 and Chief Executive Officer from March 2009 to February

2013. At Telecom Personal S.A., he acted as Chief Executive Officer from December 2010 to February 2013, as the Chief Operating Officer from August 2008 to March 2009 and as Effective Member of the Board of Directors from April 2008 to August 2008. At TIM Participações, he acted as alternate member of the Board of Directors from April 2007 to July 2008.

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

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

Oscar Cicchetti. Mr. Cicchetti has acted as the Head of Strategy at Telecom Italia S.p.A. since April 15, 2011. He is also Chairman of Matrix and Member of the board of directors of Telecom Italia Foundation. Mr. Cicchetti started work in SIP in 1979. From 1979 to 1984, he was in charge of Network and Plant Management for the geographical area of Ascoli Piceno and then became Market Manager for the Ancona and Perugia areas. From 1987 to 1993, he was Head of Organization and Process in the Personnel Department. In 1993, he joined a task force of the IRI Group to work in the Azienda di Stato dei Servizi Telefonici (State Telephone Services Board, later called Iritel), participating in the privatization process of the State-owned company and its subsequent integration in the Telecom Italia Group. In 1994 he joined Telecom Italia and in 1997 he was the Staff Manager for the General Manager and then for the Managing Director of the Group. From 1997 to 2000 he occupied various positions in the top management of the Telecom Italia Group: first as Assistant Central Director and Manager of the International Business Unit and then Head of Strategic Planning and Head of the Network Division. From 2001 to 2002, he was a freelance consultant for various corporations, such as Wind and Morgan Stanley Private Equity. In 2003, together with a group of investors, including TLCom and Merloni Group, he acquired Netscalibur S.p.A., a company specialized in data services business. As Managing Director, he handled the company turnaround and its sale to the Infracom Group in 2006. In 2007, he was appointed Managing Director of Infracom Network Application S.p.A. and stayed in this position until January 2008, when he returned to Telecom Italia Group. In Telecom Italia, he held the position of Head of Business Strategies & International Development and then he was appointed Head of Domestic Market Operations. In November 2009, he became Head of Technology & Operations.

Francesca Petralia. Mrs. Petralia acts at Telecom Italia as head of International Legal Affairs. Previously, from February 2013 to February 2014, she was head of Corporate and Legal Affairs in South America. After graduating in Law, she began her career in 1978 as in-house counsel in Fiat Auto S.p.A., Grandi Lavori S.p.A. and Selenia Industrie Elettroniche Associate S.p.A. She joined Telecom Italia in 1990, focusing on international legal affairs. From 2002 to 2011, she was head of Corporate Finance Legal Affairs within the Legal Department. Subsequently, she acted as Group Compliance Officer until February 2013. She is a member of the Board of Directors of the South American companies TIM Brasil and Sofora Telecomunicaciones S.A., as well as the holding Telecom Italia International N.V. in The Netherlands. Mrs. Petralia was born in Bologna, Italy in 1953.

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

managed the area of paper and cellulose from Cia Vale do Rio Doce. He worked in the Group Ericsson do Brasil for 23 years, where he reached the position of Chief Executive Officer in many companies of the Group. He was also the Chief Executive Officer of Ficap and of Sharp Equipamentos Eletrônicos. He also served as the Superintendent Officer of the Companhia Siderúrgica Nacional. He has held a position in the board of directors of many companies, such as Sadia, Bahia Sul, Group Ericson, Docenave and Telemar. In 1989, he was appointed as the major financial professional of the year by the Instituto Brasileiro de Executivos de Finanças.

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Patrizio Graziani. Mr. Graziani has been Chief Executive Officer and a member of the Board of Directors of HR Services S.r.l. as since April 2010. He has also acted since January 2008 as assistant of the Executive Management at Telecom Italia. Mr. Graziani has been the Chairman of the Board of Directors of Nortel Inversora S.A. since April 2012 and a member of the Board of Directors of Telecom Argentina since July 2012. From January 2004 to June 2008, he was a Consultant and General Manager at Techvisory S.p.A.

Piergiorgio Peluso. Mr. Peluso was born in Rome in 1968. Since September 26, 2012 he has been Head of Administration, Finance and Control at Telecom Italia. After graduating in Economic and Social Sciences from the Università Commerciale Luigi Bocconi in 1992, with a specialization in Finance, from 1992 to 1994, he held the position of experienced accountant at Arthur Andersen & Co. From 1994 to 1998, he was Senior Financial Analyst at Mediobanca, and he was Vice President, from 1998 to 2000, of the Financial Institutions Group and, from 2000 to 2001, of the Mergers & Acquisitions Group, with Credit Suisse First Boston. In 2002, he joined Medio Credito Centrale S.p.A. (Capitalia Group) as Central Director Advisory Area. He retained this position until 2005, when he was appointed Central Director at Capitalia S.p.A.. From 2007 to 2009, following the merger of Capitalia S.p.A. and UniCredit Group S.p.A., he was Head of Investment Banking Italy at UniCredit Group S.p.A. In 2009, he was appointed CEO of UniCredit Corporate Banking S.p.A.. Following the merger of UniCredit Corporate Banking S.p.A. with UniCredit S.p.A., in 2010 he was appointed Head of Corporate & Investment Banking Italy, UniCredit Group. From 2011 to September 2012, he was Managing Director of Fondiaria SAI S.p.A.. Mr. Peluso is also a member of the Board of Directors of Telecom Italia Media S.p.A., Telecom Argentina and Fondazione Telecom Italia.

Rodrigo Modesto de Abreu. Mr. Abreu holds a Bachelor Degree in Electrical Engineering from Universidade de Campinas and a Masters of Business Administration from Stanford Graduate School of Business. Mr. Abreu has more than 20 years of experience in the telecommunication and information technology sectors, having worked at various companies and in positions in that field, in Brazil and abroad. From 1991 to 1998, Mr. Abreu worked at Promon Tecnologia S.A., where he worked on Corporate Strategic Planning & Business Development. After that, in 1999, he became an associate of McKinsey & Co., a company located at Palo Alto, California. After returning to Brazil, Mr. Abreu joined the Promon Group in 2000, where he worked as Chief Executive Officer of Promon IP S.A. In 2002, he became Executive Director of Promon Telecom Ltda., where he redesigned the company's overall strategy, organization, product line and partnerships to reposition the company in the telecom market. From 2002 to 2004 he acted as Chief Executive Officer of Promon Telecom Ltda, during which time he integrated all of the technology-related activities of Promon Telecom, Promon IP and Promon Intelligens into a single company. From 2004 to 2006, he worked as Managing Director of Nortel Networks Brazil. His last professional challenge was as Chief Executive Officer of Cisco do Brasil, where he has worked for seven years, from 2006 to 2013.

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

Board of Executive Officers

Pursuant our By-laws, our Board of Executive Officers (the members of which we also refer to as our Statutory Officers) is comprised of at least two and no more than nine members, who may or may not be shareholders. The title of the members of our Board of Executive Officers shall be as follows: (1) Chief Executive Officer, (2) Chief Financial Officer, (3) Investor Relations Officer, (4) Purchasing & Supply Chain Officer, (5) Chief Operations Officer, (6) Chief Marketing Officer, (7) Regulatory and Institutional Affairs Officer, (8) Legal Officer; and (9) Chief Technology 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 held on April 10, 2014:

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| Name | Title | Date of Birth | Date Appointed |
|----------------------------------|--|-------------------|-------------------|
| Rodrigo Modesto de Abreu | Chief Executive Officer | April 19, 1969 | February 07, 2013 |
| Claudio Zezza | Chief Financial Officer | May 22, 1963 | August 06, 2008 |
| Rogério Tostes Lima | Investors Relations Officer | February 13, 1971 | October 31, 2011 |
| Daniel Junqueira Pinto Hermeto | Purchase & Supply Chain Officer | April 27, 1971 | November 27, 2009 |
| Lorenzo Federico Zanotti Lindner | Chief Operations Officer | August 10, 1973 | May 03, 2010 |
| Roger Sole Rafols | Chief Marketing Officer | April 10, 1974 | August 02, 2011 |
| Mario Girasole | Regulatory and Institutional Affairs Officer | June 8, 1968 | December 13, 2010 |
| Jaques Horn | Legal Officer | March 15, 1964 | November 28, 2011 |
| Carlo Filangieri* | Chief Technology Officer | December 19, 1967 | July 30, 2013 |

(*) Mr. Carlo Filangieri will assume the position of Chief Technology Officer once he has the requisite work visa in order to be permitted to work in the Federative Republic of Brazil.

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Brief biographical descriptions of our executive officers are set forth below.

Rodrigo Modesto de Abreu. See “—Board of Directors.”

Claudio Zezza. Mr. Zezza is an Italian citizen and holds a degree in Economics and Trade from the University of Rome, with specialization in Finance, Financial Statements and Economics. Currently, he is Chief Financial of the Company. Mr. Zezza joined Telecom Italia and in 1998 he started working in the area of International Businesses. In 2000, he became responsible for the International Operational Management. In 2004, he became responsible for the Planning and Control Department. In 2005, he was responsible for the International Business Performance area. In 2007, before coming to Brazil, he became responsible for the International Control in Administration, Finance and Control.

Rogério Tostes Lima. Mr. Lima holds a degree in Business Administration and received an Executive MBA from Ohio University and also from Fundação Getulio Vargas (FGV). He has been Investor Relation Director of the Company since 2008. Mr. Lima has followed telecommunication scenario in Brazil since Telebras privatization process in 1998, when he joined a team responsible to evaluate/split Telebras system and prepare it for the privatization process. After that, he worked in a management team responsible to manage BCP/BSE operations in São Paulo and Northeast for Banco Safra, where he ended-up working as sell-side analyst. More recently, he was sell-side analyst for Banco Santander for three years.

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

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

Roge Sole Rafols. Mr. Rafols is a Spanish citizen. He holds a degree in Business Bachelor and Master in Business Administration from Escuela Superior de Administración y Dirección de Empresas – ESADE concluded in 1997 and attended the MBA Exchange Program in University of California in 1996. He also attended Post Graduation Program in Management of Audiovisual Companies in Universitat Pompeu Fabra, Instituto Desarrollo Continuo (IDEC) – Barcelona in 2000 and Advanced Management Program in IESE Business School, Universidad

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de Navarra in 2006. From 1996 to 2001 Mr. Rafols worked for Dimondcluster (the former Cluster Consulting and current Oliver Wyman) as consultant of strategy, marketing and technology in telecommunications and Internet fields. From 2001 to 2008 he worked for Vivo Participações S/A holding the position of Head of the Department of Business Data and Value-Added Services, between July, 2002 and March, 2006, and Head of the Department of High Value Marketing, between April, 2006 and May, 2008. In 2008, Mr. Rafols joined TIM holding the position of Senior Manager Executive from January, 2009 to April, 2009, Leader of the Marketing's Department of Consumer Offering, from May, 2009 to October, 2009, Head of the Department of Marketing Consumer, from November, 2009 to August, 2011 and, currently, Chief Marketing Officer.

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

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

Carlo Filangieri. Mr. Filangieri is an Italian citizen. He graduated in Electronic Engineering from La Sapienza University, Rome, has a masters in Information and Communications Technology from Scuola Superiore Guglielmo Reiss Romoli, also in Italy, and has completed programs in Management Training at SDA Bocconi School, Italy, and High Performance Leadership at IMD of Losanna. He has spent nearly 20 years serving in various management and professional roles in the technology sector. From February to October 2012, he was Network Director of the North East Region of Telecom Italia Group. From May 2011 to February 2012, he was Head of Network Operations Management at Telecom Italia Group, controlling network operations and service creation, and managing conferencing services. From November 2008 to May 2011, he was the IT Infrastructure Director, reporting first to the Chief Information Officer of the Telecom Italia Group, and then to the Chief Executive Officer of SCC, a European independent technology solutions provider. From February 2008 to November 2008, he was the Operations Support Systems Engineering Director and from September 2004 to January 2008 he was the Customer Service Director at Telecom Italia. From December 2000 to August 2004, he was the Broadband Services Director at Telecom Italia. From 1994 to 2000, he held various different roles regionally at Telecom Italia. From 1992 to 1993, he was a Hardware Engineer in the company STS, having been involved in many IT projects for the Italian army and railways. Since May 2012, Mr. Filangieri has been a board member of Trentino NGN, a company built for broadband development in the region of Trentino, Italy.

There are no family relationships among any of our directors and executive officers, nor any arrangement or understanding with major shareholders, customers or suppliers pursuant to which any director or executive officer was

selected.

Statutory Audit Committee

The current composition of the Statutory Audit Committee consists of three members.

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

| Name | Date of Birth | Date Appointed |
|------------------------------------|------------------|-------------------|
| Alberto Emmanuel Carvalho Whitaker | October 10, 1940 | December 23, 2013 |
| Maílson Ferreira da Nóbrega | May 14, 1942 | December 23, 2013 |
| Samuel de Paula Matos (*) | March 22, 1948 | December 23, 2013 |

(*) Audit committee financial expert.

The Statutory Audit Committee was created and its members appointed at the shareholders' meeting held on December 12, 2013, in accordance with Rule 10A-3 under Section 301 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and CVM Instruction 509/2011. The Statutory Audit Committee's internal regulations were approved at the Board of Directors meeting held on December, 23, 2013.

The Statutory Audit Committee is composed of at least three (3) and at the most five (5) members, all elected by the Board of Directors, who serve two-year terms of office, matching the terms of the members of the Board of Directors. Re-election is permitted up to, for a maximum period of 10 years. Members of the Statutory Audit Committee may be dismissed by our Board of Directors at any time and without cause.

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The Statutory Audit Committee's general duties and responsibilities under Brazilian corporate law, our By-laws and its internal rules, include: (i) opining, preliminarily, on the hiring and removal from office of the independent auditor in charge of auditing the financial statements, or any other service provided by such auditor, whether or not it may be related to auditing; (ii) analyzing the auditor's annual work plan, discussing the results of the activities performed, revisions made and assessing the performance of the independent auditors; (iii) supervising independent auditors' activities to assess their independence, quality and adequacy of the services provided to the Company, including, to the full extent permitted by law, assistance solving any disagreement between the management and the independent auditors concerning the presentation of financial statements; (iv) supervising the activities performed by the internal audit department, and for that purpose analyzing the annual work plan, discussing the results of the activities performed, the revisions made and assess the performance of internal auditors; (v) supervising and analyzing the effectiveness, quality and integrity of the Company's internal controls over financial reporting, in order to, inter alia, monitor the implementation of the provisions related to: (a) the presentation of the financial statements, including quarterly financial information and other interim statements; and (b) the disclosure of information and evaluations based on adjusted financial data and on non-accounting data, resulting in unexpected additions to the structure of the usual reports on financial statements; (vi) analyzing complaints, anonymous or not, concerning any accounting matters from internal controls or audit, received by the Company, as well as suggesting measures that may be taken; (vii) examining, assessing and expressing opinions, in advance, based on the material provided by the Company's management, on whether the contracts to be signed between the Company, or its subsidiaries, on one hand, and the majority shareholder or its subsidiaries, associated companies, or companies under common control or which may control the said shareholder, or parties related in some other way to the Company, on the other hand, meet the standards that normally apply within the market to similar agreements between independent parties, with the Statutory Audit Committee having the right to request further clarification or the opinion of independent third parties, whenever deemed necessary; (viii) drawing up the annual synthesis report, pursuant CVM rules, to be presented, together with the financial statements, including a description of: (a) its activities, the results and conclusions reached and recommendations made; and (b) any situation where there is a significant disagreement between the Company's management, independent auditors and the Statutory Audit Committee regarding financial statements of the Company; and (ix) assessing and monitoring the Company's exposure to risk, with the right to request detailed information on policies and proceedings related to: (a) remuneration of the management; (b) utilization of the Company assets; and (c) expenses incurred on behalf of the Company.

Fiscal Council

The current composition of the Fiscal Council consists of three members, two of which were elected by our controlling shareholder and one by the minority shareholders. The following are the current members of our Fiscal Council, whose terms of office will be valid until the annual shareholders' meeting to be held in 2015:

| Name | Date of Birth | Date Appointed |
|-----------------------------|-------------------|----------------|
| Oswaldo Orsolin | May 30, 1943 | April 10, 2014 |
| Josino de Almeida Fonseca | February 12, 1940 | April 10, 2014 |
| Maurício Marcellini Pereira | June 21, 1973 | April 10, 2014 |

Under Brazilian corporate law, our By-laws and the internal rules of the Fiscal Council, the Fiscal Council'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 Council.

Other Committees

We have other non-statutory committees including a compensation committee and internal control and corporate governance committee.

Compensation Committee

The compensation committee was established by the Board of Directors on September 30, 2008 to: (1) prepare proposals for our Board of Directors regarding allotment of the overall annual remuneration approved by general

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shareholders' meeting; (2) provide our Board of Directors with proposals concerning the remuneration of our executive officers; (3) evaluate the compensation criteria of Company's executive officers; (4) monitor the performance of the decisions taken by management and the Company's policies relating to senior executive compensation.

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

| Name | Date of Birth | Date Appointed |
|-----------------------------------|---------------|-------------------|
| Manoel Horácio Francisco da Silva | July 16, 1945 | November 27, 2009 |
| Oscar Cicchetti | June 17, 1951 | August 02, 2011 |
| Patrizio Graziani | April 3, 1965 | April 18, 2013 |

Control and Risks Committee

The Control and Risks Committee was established by the Board of Directors on June 18, 2013, and tasked with the following responsibilities: (a) recommending internal control measures to be adopted by the Board of Directors establishing the specific authority of the Board of Executive Officers and the limits of such specific authority, subject to the provisions of the By-laws, as well as deciding on the assignment of new functions to the Directors; (b) monitoring the Company's compliance with our corporate governance policy and periodically updating the same; (c) without prejudice to the competence of the Board of Directors, recommending procedures for better supervision of the management of the Directors; (d) acknowledging the internal audit work plan reviewed by the Company's Statutory Audit Committee in accordance with the Company's By-laws; (e) approving the compliance department's work plan and monitoring compliance with the same; (f) reviewing and evaluating periodic reports issued in accordance with the internal control and risk management system by the internal audit department and the compliance department and, in connection with the same, requesting that the internal audit department review specific operational areas or that the compliance department develop new procedures; (g) supervising and monitoring issues related to the social responsibility of the Company, and monitoring the Company's compliance with the principles established in our Code of Ethics and Conduct; and (h) analyzing any other matters related to the internal control of the Company as are delegated by the Board of Directors.

The following are the current members of the internal control and corporate governance committee:

| Name | Date of Birth | Date Appointed |
|-----------------------------|------------------|----------------|
| Franco Bertone | May 14, 1942 | June 18, 2013 |
| Francesca Petralia | July 16, 1945 | June 18, 2013 |
| Patrizio Graziani | April 3, 1965 | June 18, 2013 |
| Maílson Ferreira da Nóbrega | May 14, 1942 | June 18, 2013 |
| Adhemar Gabriel Bahadian | October 22, 1940 | June 18, 2013 |

Legal Investigation

On March 21, 2012, our controlling shareholder, Telecom Italia, was notified of the conclusion of preliminary inquiries related to an investigation under the Italian Code of Criminal Procedure in which three previous executives of Telecom Italia (including our former chief executive officer, Mr. Luca Luciani) were charged with "preventing the public supervisory authorities from performing their functions" with respect to communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards topped up with 0.01 euros, and the activation of 1,042,447 SIM cards deemed irregular and not topped up in the twelve months after activation. The proceeding initially included Telecom Italia. Telecom Italia, however, has since agreed to a plea

bargain and was admitted to the trial as a civil party against the three persons charged. On July 10, 2012, the judge for the preliminary hearing declared that the statute of limitations applied to Telecom Italia only, for the actions committed up to May 31, 2007, approving the plea bargain and ordering Telecom Italia to pay a fine of 600 thousand euros, acknowledging that from 2008 on Telecom Italia had adopted an organizational model suitable to prevent the commission of acts similar to those committed. During the first preliminary evidentiary hearing against the three former managers charged on December 17, 2012, Telecom Italia filed a further motion to be admitted as a

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civil party to the trial of the three defendants. Telecom Italia then withdrew its application to be admitted to the proceedings against Mr. Riccardo Ruggiero after approval at the Telecom Italia shareholders' meeting of a settlement agreement with Mr. Ruggiero. During a hearing on February 11, 2013, the Milan Court, taking the opposing view to the judge at the abovementioned preliminary evidentiary hearing, declared that it did not have jurisdiction, and ordered that the case be transferred to the Rome Public Prosecutor's Office.

B. Compensation

In a meeting held on April 10, 2014, we approved the aggregate amount of approximately R\$21.8 million as compensation to our directors and statutory officers during 2014. The statutory officers' and directors' compensation is composed of fixed remuneration, benefits, bonuses, short-term incentives and participation in long term incentive plans.

Accordingly, we did not set aside or accrue any amounts to provide pension, retirement or similar benefits to our officers and directors during 2013. The aggregate compensation to our statutory officers in the year ended December 31, 2013, including fixed remuneration, benefits, bonuses, short-term incentive and long term incentive plans, was approximately R\$13.8 million.

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

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

For the year ended on December 31, 2013, each member of our Board of Directors received R\$182,353 and each member of our Fiscal Council received annual compensation of R\$163,500, paid pro rata according to each member's time of service on such body.

C. Board practices

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

D. Our Employees

On December 31, 2013, we had 12,167 full-time employees. We do not employ a significant number of temporary employees. The following tables show a breakdown of our employees as of December 31, 2013, 2012 and 2011.

| | As of December 31, | | |
|------------------------|--------------------|-------|---------|
| | 2013 | 2012 | 2011(1) |
| Network | 1,436 | 1,240 | 1,183 |
| Sales and marketing | 3,961 | 3,740 | 3,186 |
| Information technology | 516 | 503 | 551 |
| Customer care | 5,134 | 4,737 | 4,340 |

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| | | | |
|---------------------------|--------|--------|--------|
| Support and other | 1,120 | 1,430 | 1,302 |
| Total number of employees | 12,167 | 11,650 | 10,562 |

(1) Includes 296 new employees from TIM Fiber (now TIM Celular).

All employees are represented by state labor unions associated with the Federação Nacional dos Trabalhadores em Telecomunicações and the Federação Interestadual dos Trabalhadores em Telecomunicações or the Sindicato

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dos Engenheiros do Estado do Paraná e Nordeste. We negotiate a new collective labor agreement every year with the local unions. Management considers our relations with our work force to be satisfactory. We have not experienced a work stoppage that had a material effect on our operations.

Employee Benefit Plans

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

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

The actuarial gains and losses resulting from changes in actuarial assumptions are recorded within shareholders' equity as other comprehensive income, as incurred.

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

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

Following the acquisition and incorporation of AES Atimus (later TIM Fiber and now TIM Celular) in 2011, we assumed this company's defined benefit pension plan. The plan is currently under review and will be separated from the Eletropaulo Telecomunicações plan and TIM Fiber's portion will be migrated to another administrator. Currently, there are no more active participant contributions to this plan and there is no payment of monthly contributions. We have undertaken an actuarial study following the premises of IAS-19 and CVM to identify the existence of actuarial liabilities. Were we to identify a deficit, we would be obligated to report such deficit on the company's balance sheet as OCI (Other Comprehensive Income). At present, the great majority of participants are still young. We believe expenditures to cover eventual deficits under this legacy plan to be remote. There should be no short-term obligation.

Since 2006, the company's pension funds had been administered by HSBC. After a two year process beginning in 2011, during which the company evaluated other multiemployer pension fund management companies, the company elected to transfer the administration of the following pension plans to Icatu Pension Funds (Icatu Fundo Multipatrocinado), a pension fund management company in Brazil: Defined Benefit Plan - Tele Celular Sul PBS; PBS Tele Nordeste Celula; Defined Contribution Plan - Nordeste TIMPREV, TIMPREV Sul; and Intelig Gente. In February 2013, the National Superintendency of Pension Funds (Superintendência Nacional de Previdência Complementar), or PREVIC, approved the transfer of administration, and the entire transfer process was concluded in May 2013. Since this time, these plans have been closed to new members. The Benefit Plan PBT TIM remains managed by HSBC.

Stock Options

We operate share-based compensation plans, settled in shares, under which we receive the services of certain employees in consideration for equity options granted. The fair value of the employee's services are recognized as an expense, with a compensating entry to capital reserves, and are determined by reference to the fair value of the options granted. The latter excludes the impact of any vesting conditions based on service and performance which

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are not market-related (for example, profitability, sales increase targets and remaining in employment for a specific period of time). Non-market-related vesting conditions are included in the assumptions underlying the number of option which will vest. The total expense amount is recognized during the period over which the rights vest, when specific vesting conditions should be fulfilled. On the balance sheet date, the entity reviews its estimates regarding the number of options which will vest, based on the non-market-related vesting conditions. It recognizes the effect of this review of initial estimates, if any, in the income statement, with a corresponding adjustment to the capital reserve.

Amounts paid to employees, net of any directly attributable transaction costs, are credited to capital reserve and share issuance premium reserve, if applicable, when options are exercised.

Social contributions payable in connection with the granting of share options are deemed an integral part of the grant itself, and the payment is treated as a transaction settled in cash.

Defined Contribution Plan

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

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

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

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

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

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

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

Due to the incorporation of Intelig by us in 2010, the pension plan of this company was taken over by TIM. The Intelig pension plan is a closed defined contribution plan, managed by HSBC Pension Fund and it's not offered

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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

As of December 31, 2013, our directors and executive officers, owned, in the aggregate, 73 common shares, which represented less than 0.0001% of our common shares outstanding. Accordingly, each of our directors or executive officers beneficially owns less than one percent of outstanding common shares.

Some key officers are also eligible to participate in a long term incentive plan (stock option plans) for which compensation is based on performance targets for our share price, as further described in “—B. Compensation” and “—D. Our Employees—Stock Options.”

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following tables set forth information relating to the ownership of common shares by TIM Brasil Serviços e Participações S.A., or TIM Brasil, and our officers and directors. We are not aware of any other shareholder that beneficially owns more than 5% of our common shares.

| Name of owner | Common Shares Owned | Percentage of Outstanding Common Shares | |
|---|------------------------|---|----------|
| TIM Brasil Serviços e Participações S.A.(1) | 1,611,969,946 | 67 | % |
| All our officers and directors as a group* | 73 | 0.0001 | % |
| Total | 2,417,632,647 | 100 | % |

* Represents less than 1%.

Since TIM Brasil owns 67% of our outstanding common shares, it has the ability to control the election of our Board of Directors and to determine the direction of our strategic and corporate policies. The common shares held by TIM Brasil have the same voting rights as the common shares held by other holders and TIM Brasil has no special voting rights beyond those ordinarily accompanying the ownership of our common shares.

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. See “Item 4. Information on the Company—C. Organizational Structure.” Telecom Italia is a corporation organized under the laws of the Republic of Italy. Telecom Italia and its subsidiaries, or 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, 2013 the Telecom Italia Group had approximately 13.2 million physical retail accesses (consumer and business) in Italy, a decrease of 0.8 million compared to December 31, 2012. The wholesale customer portfolio in Italy reached approximately 7.2 million accesses for telephone services at December 31, 2013, stable compared to December 31, 2012. The broadband portfolio in Italy reached 8.7 million accesses at December 31, 2013 (consisting of approximately 6.9 million retail accesses and approximately 1.8 million wholesale accesses), a market share of 50%. In addition, the Telecom Italia Group had approximately 31.2 million mobile telephone lines in Italy at December 31, 2013.

As of December 31, 2013, there were 386,566,803 common shares represented by ADSs. As of such date, the number of common shares represented by ADSs represented 15.989% of our total capital.

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Significant Changes in Percentage Ownership of Principal Shareholders

None.

Shareholders' Agreement

On April 16, 2009, we entered into a shareholders' agreement with TIM Brasil, JVCO, and Docas Investimentos S.A., or Docas, which was amended on November 30, 2009 and further amended on June 22, 2011. On December 28, 2012, TIM Brasil, notified JVCO and Docas that it was terminating the shareholders' agreement pursuant to section 7.2.1 of thereof, which allows TIM Brasil to terminate the shareholders' agreement by notifying the parties in the event that the number of ordinary shares owned by JVCO for any reason falls below 1.5% of the total ordinary shares issued by the Company.

B. Related Party Transactions

As of December 31, 2013, 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\$23.0 million and R\$91.1 million, respectively on December 31, 2013. See Note 38 to our consolidated financial statements.

Guarantees of Obligations of our Subsidiaries

We are the guarantor of a promissory note issued by TIM Celular, as successor to TIM Nordeste in the amount of R\$23.3 million as of December 31, 2013. 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 between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67 million.

We are guarantor for TIM Celular's Finance Contract with European Investment Bank in the principal amount of €350.0 million as of December 31, 2013. European Investment Bank has also bank guarantees from SACE sPa, Banco Itaú BBA and KFW-IPEX in the principal amount of €115.0 million €200.0 million and €52.5 million, respectively.

We are guarantor in favor of BNDES, in the amount of R\$2,386 million as of December 31, 2013, under the Credit Agreements of TIM Celular and Intelig.

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

Agreement between Telecom Italia and TIM Participações and our Subsidiaries

Our shareholders at the meeting held on April 10, 2014 approved an extension for an additional 16 month period until April 30, 2015 of the Cooperation and Support Agreement, originally signed in May 3, 2007 with Telecom Italia. The purpose of this agreement is to enable us to benefit from Telecom Italia's internationally recognized expertise, built throughout years of operation in more mature and developed markets. The cooperation and support activities to be performed by the parties will be focused in adding value to our operations through:

- Benefiting from Telecom Italia's experience and industrial capacity as one of the major players in the European market;
-

Applying the systems/services/processes/best practices that were largely used in the Italian market and may be easily customized for the Brazilian market through limited investments and mitigated implementation risks; or

- An increase in efficacy and efficiency by adopting in-house solutions that have been widely tested and used.

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The extended term of the agreement provides for a total price cap of €11.67 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 2014 and 2015 under the agreement.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements.”

Legal Proceedings

We are subject to various claims, including regulatory, legal and labor proceedings covering a wide range of matters that arise in the ordinary course of business. We adopted a policy of analyzing each such proceeding and making a judgment as to whether a loss is probable, possible or remote. We make accruals for legal proceedings that we are party to when we determine that losses are probable and can be reasonably estimated. Our judgment is 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 its PCS authorization, or the Terms of Authorization, TIM Celular implemented mobile personal telecommunications coverage for the assigned area. The Terms of Authorization requires TIM Celular 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 and applicable penalties. Anatel has brought administrative proceedings against the TIM Group for (1) noncompliance with certain quality service indicators; and (2) default of certain other obligations assumed under the Terms of Authorization and pertinent regulations (Resolution n°.477). In its defense before Anatel, the TIM Group attributed the lack of compliance to facts beyond its control and not related to its activities and actions. We cannot predict the outcome of these proceedings at this time, but have accrued the amount in our balance sheet as a provision for all those cases in which we estimate our loss to be probable.

Class Actions

Our subsidiaries are subject to a number of class action claims where the risk of loss is regarded as probable. These claims are summarized as follows:

(1) a lawsuit against TIM Celular in the State of Rio de Janeiro challenging our policy of charging a retention fee in case of robbery of the clients’ mobile device;

(2) a lawsuit against Intelig in the State of Santa Catarina related to noncompliance with Anatel Resolution No. 85, article 61;

(3) a lawsuit against TIM Celular in the State of Minas Gerais challenging our policy of charging a retention fee when a client intends to terminate the contract before the period specified in the contract (when the client received a benefit,

for example a discount on the purchase of a mobile device);

(4) a lawsuit against TIM Celular in the State of Ceará questioning damages due to contracts being rescinded by customers;

(5) a lawsuit against TIM Celular in the State of Rio Grande do Norte in order to investigate our advertisements;

(6) a lawsuit against TIM Celular in the State of Pernambuco regarding to the placement of warranty language;

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(7) a lawsuit against TIM Celular in the State of Rio Grande do Norte concerning collection on certain value-added services from prepaid customers;

(8) a lawsuit against TIM Celular in the State of Minas Gerais in order to investigate if the Company properly bills telephone pulses, which are the unit of measurement consisting of 4 minutes of voice traffic used to charge voice calls;

(9) a lawsuit against TIM Celular in the State of São Paulo questioning customer service quality;

(10) a lawsuit against TIM Celular in the State of Rio Grande do Norte related to network quality in Municipality of Upanema; and

(11) a lawsuit against Intelig in the State of Pernambuco related to noncompliance with Anatel Resolution No. 85, article 61.

Other Actions and Proceedings

Our subsidiaries are subject to a number of civil claims where the risk of loss is regarded as probable. These claims are summarized as follows:

A legal action for collection was filed against TIM Celular by Mattos & Calumby Lisboa Advogados Associados, which is in progress at the Twenty-Ninth Lower Court of the Judicial District of Rio de Janeiro. The plaintiff asserts that it is owed money as a result of a contract for the provision of legal services that was entered into with TIM Celular. The proof of the expert investigation was upheld and the judge ratified the opinion. TIM Celular filed an appeal, challenging the decision of the expert investigation, and the court recently ordered that a new expert investigation be carried out. In February 2012, the court ruled that TIM Celular should pay R\$1,529 thousand (plus interest and penalties since January 2003) to Mattos & Calumby. On July 2012, TIM Celular filed an opposition to this decision, which remains pending.

A lawsuit filed by Botafogo Comércio e Importação Ltda. against the former Telpo Celular S/A (currently TIM Celular), in 2002, by a former commercial partner, who argues that TIM Celular did not perform the contract and practiced unfair competition which ended up putting them out of business. A settlement procedure commenced and was adjudicated, whereby TIM Celular was required to pay consequential damages lost profits and moral damages. The calculations of such damages as presented by TIM Celular, prepared by a retained expert witness, total approximately R\$ 6,307 thousand, however this value is still pending final determination.

In addition, the Company and its subsidiaries are subject to a number of claims for which the risk of loss is regarded as possible. These claims are summarized as follows.

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

determination the VU-M reference amounts is concluded. In October 2012, GVT filed a petition with the court informing that it had entered into agreements only with Vivo and Claro to solve the VU-M issue, and the court approved these agreements. On June 13, 2013, a pretrial conference occurred between GVT and the other defendants (including the Company), but the parties did not reach an agreement, so the lawsuit is proceeding.

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

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held the administrative proceeding and ruled against the alleged practice of price fixing, but forwarded the proceeding to CADE for judgment, voting for the dismissal of the antitrust claim for common price fixing. CADE's Public Attorney's Office, after analyzing the proceeding, recommended that the proceeding be dismissed as to all defendants and failed to conclude, based on lack of evidence, that such constituted anticompetitive practices. On September 11, 2013, CADE unanimously dismissed the administrative proceeding and its incidents. Hoje Sistemas de Informática Ltda. wasn't admitted as interested party in the administrative proceeding, however, and as a result Hoje Sistemas de Informática Ltda. has filed a motion for clarification. CADE Plenary denied this motion for clarification on November 6, 2013.

Integração Consultoria e Serviços Telemáticos Ltda., or ICST, a prepaid calling plan recharge distributor, brought a lawsuit against TIM Celular in the Second Lower Court of the Judicial District of Florianópolis in the State of Santa Catarina, for the sum of R\$4 million. In the lawsuit, ICST seeks to suspend the enforceability of prepaid credits already sold by TIM Celular and seeks damages incurred as a result of contract termination. The court granted an injunction on the issue of the enforceability of the prepaid credits. TIM Celular filed an execution action with the Fourth Lower Court of Florianópolis against ICST for the sum of R\$3,957 thousand. ICST appealed, which appeal was denied, and subsequently filed an interlocutory appeal, which was granted. TIM Celular has asserted that ICST's assets are insufficient to satisfy its claim under the execution action. The execution action is currently suspended as a result of the interlocutory appeal granted by the Fourth Lower Court of Florianópolis, and the court's judgment confirmed that the execution action will remain stayed pending the resolution of the judicial action in the first instance. The trial judge has not yet rendered a decision in the first instance. A pretrial conference is scheduled for May 15, 2014.

SECIT Brasil Ltda., part of an Italian group that provides infrastructure planning and construction services, has brought an action for damages in the amount of R\$9,758 thousand against TIM Celular, alleging that TIM Celular, was in breach of contract. SECIT had been hired by TIM Celular to undertake infrastructure work for the installation of base transceiver stations in Area 4 in Minas Gerais. TIM Celular presented its defense and the case is in the initial phase, currently under expert investigation. The trial judge has not yet handed down a decision.

In December 2010, TIM Celular filed an action against Anatel with the Fifteenth Federal Court of the Federal District requesting interlocutory relief for the purpose of annulment of a PADO applied by Anatel preventing the company from participating in the public bid for the "H" Band. Interlocutory relief was granted by the judge, which enabled TIM Celular to participate in the bidding process following a court deposit of R\$3,595 thousand. The court ruled the charge be suspended until a decision is reached. In April 2012, the lower court ruled in favor of TIM Celular on some of its claims, upholding the PADO but releasing TIM Celular from the payment of interest before the end of the administrative proceeding. Both TIM Celular and Anatel have filed appeals to the Federal Appellate Court of the First Circuit, which are currently pending judgment.

In 2009, the São Paulo based retail group TVM, a commercial partner of TIM Celular in São Paulo, filed a lawsuit to terminate its existing agreement with TIM Brazil, though the parties ultimately settled. In its settlement, TVM agreed to transfer 15 of its stores to TIM Celular (or an entity indicated by TIM Celular). These stores ended up being transferred to DM5. However, DM5 has not paid the transfer fees to TVM, and TVM has subsequently filed a collection lawsuit TIM Celular and DM5. In February 2013, the court ordered both defendants to pay R\$4,019 thousand (plus interest and penalties) to the plaintiff TVM. TIM Celular filed an appeal on March 1, 2013. On November 28, 2013, the appeal was partially granted only to exclude penalties. Therefore, we have filed a motion for clarification, which is currently pending judgment.

TIM Celular has filed a collection action against DM Link Representação Comercial Ltda., Davi Marcelino Vieira, Marcos Marcelino Vieira and Mônica Odria Vieira seeking R\$3,511 thousand plus interest and inflationary adjustment, as well as against DM5 Comércio e Representação Ltda. seeking R\$5,004 thousand plus interest and

inflationary adjustment. DM5 and DM Link used to be TIM dealers, but the contracts were terminated due to DM5 and DM Links' debts. As compensation for DM Link's debt, DM5 gave two stores to TIM Celular equal in value to R\$5,861 thousand. DM5, however, presented counterclaim for the rescission of the contract, the return of the stores to DM5, and the restitution to DM5 of any profits earned while the shops were in the possession of TIM Celular, or, alternatively the payment by TIM Celular to DM5 of the stores' "market value" as determined by judicial experts. A settlement hearing was held on October 23, 2013, but no agreement was reached and the first instance courts have also not yet made a decision

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TIM Celular is defendant in a lawsuit filed by CONSERTREL Cadastros, Serviços e Representações Ltda., in the Second Lower Court of the Judicial District of Lavras, Minas Gerais State, in which the plaintiff claims the amount of R\$ 3,203 thousand. CONSERTREL was involved in a partnership with TIM Celular and argues that the termination of the contract was “unfair, causeless and irregular”, as the plaintiff did not breach any clause of the agreement. TIM Celular has filed its response and a motion for lack of jurisdiction. The motion was granted. The dockets were forwarded to the Judicial District of Belo Horizonte. The trial judge of Belo Horizonte has not yet rendered the first instance decision.

TIM Celular has filed an action for annulment, in order to nullify a PADO against Anatel, in which TIM challenges the collection of 2% on revenues from interconnection to renew the rights of use of some radiofrequencies of mobile personal service at Paraná State (except Londrina and Tamarana), Pernambuco State, Pelotas, Morro Redondo, Capão do Leão, Turuçu, and Piauí State. The amount in controversy is R\$ 11,519 thousand. Our claim to suspend the enforceability of debt was granted. The trial judge has not yet rendered a decision.

The Foundation for Protection and Defense for Customer of São Paulo, or PROCON/SP, has fined TIM Celular on seven notices of infraction, based on (i) infraction of Decree # 6.523/08, related to customer service; (ii) supposed unconscionable clause in a contract for data package; (iii) lack of coverage under the TIM Web and TIM Casa plans at some locations; (iv) disregarding requests for termination of contract; (v) collection of fees from customers who haven't received the devices; (vi) alleged noncompliance with state act # 13.220/08, related to the “do not disturb” register; (vii) alleged difficulty in using Internet service for prepaid customers. The fines fluctuate between R\$ 3,192 thousand to R\$ 6,487 thousand. In all cases, TIM has filed administrative defenses, but some fines were upheld. Accordingly, in those cases in which a final decision was handed down, TIM has filed lawsuits to appeal the notices of infraction. With respect to the notice of infraction of item (vi), although the appeals judge has granted to TIM an injunction to suspend the effects of the administrative decision, the Justice Court of São Paulo State has revoked such decision. The trial judges have not yet rendered decisions regarding the lawsuits.

The Municipal Nucleus for Defense and Consumer Protection of Londrina has fined TIM Celular on twelve notice of infraction, based on customers claims related to (i) undue discounts on customers' prepaid accounts; (ii) discounts regarding to “Adicional Oferta Super Desconto”, “Oferta Superdesconto 12 meses” and “Superdesconto TIM Pós” plans; (iii) termination of service and undue collection; (iv) false advertising; (v) difficulty in termination of contract and undue collection; (vi) undue reporting of customers to the credit bureau; (vii) issues related to portability to other mobile providers; (viii) false advertising; (ix) issues regarding to termination of contract; (x) undue billing and unilateral change of plans; (xi) blocking of devices; and (xii) mistakes on advertisement of device offers to customers. In each notice of infraction, TIM was fined in amount of R\$ 7,133 thousand.

TIM Celular, Intelig and other telecommunications companies filed a lawsuit against Anatel, for the pro rata restatement of the prices set forth in the public notice regarding use of 4G frequencies. Anatel applied inflation adjusted for a period of time shorter than one year. The amount in controversy is R\$ 24,586 thousand. A preliminary order in an interlocutory appeal was granted to authorize plaintiffs to present a bank guarantee, related to the controversial amount. The trial judge has not yet rendered a decision.

The following two lawsuits were disclosed in our annual report filed on Form 20-F with the Securities and Exchange Commission on April 13, 2013, but have since been reassessed as having a remote risk of loss based upon their current procedural stage:

TIM Celular is a defendant in a lawsuit for damages filed by the service provider Glória Souza & Cia Ltda., or Glória, before the Ninth Lower Court of the municipality of Belém, in the State of Pará. Glória provided TIM with outsourced labor in northern Brazil. After TIM Celular terminated its contract with Glória, Glória brought a lawsuit claiming punitive damages, alleging losses as a result of severance claims brought by its employees. TIM Celular's defense and

the reply from Glória have both been submitted with the court. A reconciliation hearing was held without result. The trial judge has rendered the first instance decision in order to convict TIM to pay pecuniary and non-pecuniary damages and future earnings. Against such decision, we have filed an appeal, which is currently pending judgment.

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MCS, part of the Piolli Group, a São Paulo based retail group, was TIM's largest commercial partner in São Paulo (with approximately 40 stores). The partnership had been in operation since 2003, and was scheduled to expire in January 2010. The contract was terminated prior to its scheduled expiration date on account of disagreements between the parties in respect of compensation amounts, systems operation, and the creation and determination of targets, among other matters. MCS alleged default by TIM and sought recovery for alleged losses. MCS has claimed that its financial health has been negatively affected by the changes in TIM's remuneration policy. Prior to the end of their agreement, MCS filed a lawsuit for termination of the contract, claiming payment of R\$8,120 thousand was owed. TIM filed a restraining action, in order to prevent MCS from transferring TIM stores to its competitors, however the subsequent restraining order is no longer in force. The lawsuit filed by MCS for the termination of the contract is currently in the expert examination phase.

The following claim against Intelig has been assessed as having a possible risk of loss:

Orolix Desenvolvimento de Software Ltda. has filed suit against Intelig at the Thirty-Sixth Lower Court of the Judicial District of Rio de Janeiro. The plaintiff is claiming R\$ 5,433 thousand in damages based on breach of contract. Intelig has filed its defense. The case is currently in the expert examination phase and the trial judge has not yet rendered a decision.

Labor Claims

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

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

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

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

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

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Social Security Claims

In São Paulo TIM Celular received a debit assessment notice referring to alleged irregularity in the payment of social security contributions in connection with the payment of profit sharing in the amount of R\$4,713 thousand. TIM Celular filed its administrative defense, but on September 16, 2009, a decision was rendered which upheld the assessment notice. An administrative appeal was filed on October 5, 2009, the judgment of which is still pending.

In May 2006, TIM Celular was issued a tax assessment notice in the amount of R\$2,389 thousand for social security contributions that were allegedly due in connection with the following: (1) hiring bonuses (2) non-adjusted bonuses (3) payments to self-employed persons, and (4) sales incentives. TIM Celular filed an administrative defense but the tax assessment was upheld. TIM Celular filed an appeal with the Ministry of Finance's Taxpayers' Council, which is now pending judgment.

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

Tax Claims

IR, CSL, IRRF and CIDE

In February 2003, TIM Celular received a tax assessment notice from the Brazilian Federal Revenue Service Department challenging the offset of PIS and COFINS with the balance of the Income Tax overpayments made during 2002 totaling R\$72,499 thousand. The value of the tax overpayments was composed of different bases, one of which was the exclusion of exchange variations from taxable income. According to present jurisprudence, this is not allowed. Considering that, the Company's counsel indicated to the Company that loss of part of the involved amount is probable. So, in May 2013, considering the evolution of the court precedents relevant to the topic and the opinion of the Company's counsel, R\$11,765 thousand of the total amount was classified as a probable loss, and the remaining R\$60,733 thousand as a possible loss. The decision is pending judgment at the second administrative level (Conselho Administrativo de Recursos Fiscais Taxpayer's Administrative Council), or CARF.

On October 30, 2006, TIM Celular received tax assessment notices which initially amounted to R\$331,171 thousand. In March 2007, the Federal Revenue Secretariat in Recife in the State of Pernambuco, notified TIM Celular by means of a tax information report, which informed the Company that part of the amount in connection with corporate income and social contribution taxes and a separate fine, which totaled R\$73,027 thousand had been excluded from the original assessment notice. Thus the final amount of the infraction notice was set at R\$258,144 thousand. In June 2013, the Company filed an appeal at CARF against the decision issued in the first administrative level. At present, the decision is pending judgment at CARF.

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

We believe this was a usual market transaction executed in accordance with CVM Instruction No. 319/99.

The above-mentioned tax information report did indeed lead to a portion of the infractions contained in the assessment notice, which discussed the timely adaptation of the deductibility of the goodwill to 159 specific federal tax offsetting proceedings amounting to R\$84,742 thousand, which arose from offsetting involving this recognition. In September 2009 and April 2011, a decision was rendered partially favorable to TIM Celular with respect to

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certain of the offsetting proceedings, reducing the credit offset by TIM Celular. At present, TIM Celular continues to challenge the remainder of the offsetting proceedings, certain of which are in administrative proceedings totaling R\$67,404 thousand and certain of which are in judicial proceedings totaling R\$16,267 thousand.

In December 2006, Intelig received an assessment notice from the Brazilian Federal Revenue Department amounting to R\$49,652 thousand, arising from the alleged failure to pay withholding tax and Contribution of Intervention on Economic Domain, or CIDE, tax on remittances abroad by way of remuneration for outbound traffic. This notification was successfully challenged in part in an administrative proceeding in view of the final favorable decision on a related writ of mandamus. In December 2012, the company received a notification from the Brazilian Federal Revenue Services Department informing them of the ruling, which resulted in a gain of about R\$ 30,098 thousand. In February 2013, Intelig filed a lawsuit aiming to cancel the remaining obligations. In this procedure, the Company offered a guarantee in the value of R\$39,957 thousand.

In May 2010, TIM Celular received three tax assessment notices from the Brazilian Federal Revenue Services Department, amounting to R\$50,026 thousand (R\$2,774 was provisioned in November 2011) involving: (i) failure to pay withholding tax on earnings of overseas residents remitted as international roaming and payments to unidentified beneficiaries, (ii) failure to pay CIDE on royalties remittances, as well as on remittances concerning international roaming, and (iii) disregard of part of carry forward losses (CIT and Social Contribution on Profits) referring to the deduction of unproven expenses by way of technical services. These assessments were immediately challenged by TIM Celular and a decision in the administrative proceeding is pending.

In December 2010, TIM Celular received an assessment notice served by the Brazilian Federal Revenue Services Department in the amount of R\$164,102 thousand involving (i) the alleged non-payment of corporate income and social contribution taxes of the amount related to the amortization of the goodwill from the acquisition of shares of Tele Nordeste Celular Participações, (ii) the exclusion of amortized goodwill, (iii) the deduction of corporate income tax by way of fiscal incentives for the reduction of tax and alleged additional amounts not eligible for rebate on account of the alleged failure to formalize with the Federal Revenue Services the incentive granted by the Sudene. In June 2013, the second administrative level (CARF) partially granted the appeal filed by the Company. At present, TIM Celular is waiting the formalization of the decision for an eventual filing of an appeal to the Superior Chamber.

In March 2011, TIM Celular, as successor to TIM Nordeste received a tax assessment notice filed by the Brazilian Federal Revenue Services Department, amounting to R\$1,265,346 thousand concerning income and social contribution taxes referring to: (i) the deduction of goodwill amortization expenses, (ii) the exclusion of the reversal of the goodwill from the former BITEL, (iii) the alleged improper offsetting of tax losses and social negative bases by disregarding the incorporation of TIM Nordeste by Maxitel, (iv) improper use of the Sudene income tax reduction tax benefit in 2006, for alleged failure to formalize the benefit with the Brazilian Federal Revenue Services Department, (v) the deduction of withholding tax without proof of payment, (vi) the deduction of accruals without proof of payment, (vii) a one-off penalty for underpayment of CIT/ Social Contribution on Profits estimates, (viii) a regulatory penalty for omitting information and failure to produce digital files, and (ix) a supplementary entry to the administrative proceedings mentioned in the above paragraph. This notice was immediately contested by TIM Celular, and a decision in the administrative proceeding is pending.

The first administrative level judgment was handed down in April 2012 at the administrative level and the assessment has been fully confirmed. We have timely filed our appeal to CARF based on favorable precedents to companies that have similar cases before CARF. The Company maintains its estimate of losses as possible, not probable. Since May 2013, the decision is pending judgment at the second administrative level (CARF).

In February 2012 and December 2013, the Company received three tax assessments from the Brazilian Federal Revenue Services Department amounting to R\$186,935 thousand (R\$70,004, R\$81,968 and R\$ 34,963) involving (i)

withholding tax on remittances for residents or domiciled abroad, and (ii) withholding tax on payments of royalties and technical assistance to resident or domiciled abroad, and (iii) CIDE on remittances for residents or domiciled abroad. These assessments are being challenged and we are awaiting decision of the first administrative level.

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ICMS

TIM Celular received assessment notices from the tax authorities in the State of Santa Catarina in 2003 and 2004, mainly relating to disputes regarding the levying of ICMS on telecommunications services provided and allegedly not paid, as well as in connection with the sale of handsets. As a result of various favorable decisions in relation to the administrative proceedings the amount disputed is currently R\$29,058 thousand (the original tax assessment was for the sum of R\$95,449 thousand), being R\$23,305 thousand classified as possible loss and R\$5,753 thousand classified as probable loss. TIM Celular is challenging these assessments at both the administrative and judicial levels.

In October 2003, TIM Celular filed a Writ of Mandamus for the purpose of waiving the 2% charge referring to the State Fund against Poverty, or FECOP, on pre-paid cards. Up to November 2013, TIM Celular made a monthly judicial deposit of such amounts ascertained, which currently total R\$51,368. Since December 2013, the Company has begun collecting from the figures for FECOP, without withdrawing their Writ.

In October 2009, we received a tax assessment notice from the State of Bahia amounting to R\$14,778 thousand. The challenge is related to the use of ICMS credits for various technical aspects and the correct calculation of ICMS levied. Due to the end of the administrative procedure in 2013, the Company filed a lawsuit offering a guarantee in the value of R\$25,310 thousand.

In June 2011, we received a tax assessment notice from the State of Ceará amounting to R\$50,153 thousand. The challenge is related to the ICMS credits based on debts reversal, specifically regarding the supporting documentation. The administrative proceeding is pending of judgment at the administrative level.

In September 2011, TIM Celular received a tax assessment notice for ICMS from the tax authority in the State of Rio de Janeiro, claiming default on payment of the tax on international roaming services provided, amounting to R\$27,891 thousand. The aforementioned assessment is being challenged at the administrative level.

In December 2010 and March 2011, TIM Celular received tax assessment notices drawn up by the tax authorities of the States of Bahia and São Paulo for the sums of R\$16,406 thousand and R\$46,923 thousand, respectively, in connection with the alleged legal interpretation regarding the proportional ICMS credit reversal due to the existence of non-taxable or exempt obligations. The assessments drawn up by the State of São Paulo are being challenged at the administrative level. Due to the end of the administrative procedure of the assessment draw up by the State of Bahia, the Company filed a lawsuit offering a guarantee. The total amount involved is R\$73,127 thousand.

In May 2009, November and December 2010 and in May 2012, TIM Celular received tax assessment notices from the taxing authorities of the States of São Paulo and Minas Gerais for R\$69,777 thousand and R\$24,771 thousand, respectively, for the alleged incorrect deduction of conditional discounts offered to clients. After the conclusion of administrative proceedings, where the court upheld the assessments, the Company have decided to keep the proceeding at the judicial level. The amount involved in the lawsuit filed to one of the assessments drawn up by the State of São Paulo is R\$386,713 thousand.

From 2009 to 2011, TIM Celular received tax assessment notices in the total amount of R\$201,841 thousand from the tax authorities of the States of Ceará, Pernambuco, São Paulo, Paraná, Rio de Janeiro, Paraíba and Bahia in connection with the disallowance of ICMS credits originated by energy consumption and acquisition. We are defending these assessments at both the administrative (R\$47,805 thousand) and judicial (R\$154,036 thousand) levels.

In April and November 2010, TIM Celular received tax assessment notices from the tax authorities of the States of Paraná and Paraíba, in the respective amounts of R\$24,047 thousand and R\$28,668 thousand relating to the alleged failure to pay ICMS on telecommunication services provided to prepaid customers on outgoing phone card sales. Due

to the end of the administrative procedure of the assessment draw up by the State of Paraíba, the Company filed a lawsuit offering a guarantee in the value of R\$53,900 thousand. The assessment drawn up by the State of Paraná is being defended at the administrative level. Recently the Company decided to classify R\$ 17,050 thousand of the amount discussed in this administrative procedure as a probable loss.

In September 2007, November 2010, June, November and December 2011, July and November 2012, and July 2013 TIM Celular received assessment notices from the tax authorities of the States of São Paulo, Rio Grande do Sul, Rio de Janeiro, Paraíba, Bahia and Paraná for a total amount of R\$548,085 thousand, relating to the reversal of ICMS credits on acquisition of fixed assets allegedly without proof of support. These assessments are being challenged at the administrative (R\$389,408 thousand) and judicial (R\$158,677 thousand) levels.

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In May 2011, TIM Celular received a tax assessment notice from the State of São Paulo in the amount of R\$367,860 thousand involving (i) a penalty for alleged non-compliance with an ancillary obligation by not presenting the 60i register of the SINTEGRA file, for 2007 and 2008, and (ii) the alleged failure to pay ICMS on discounts deemed by the tax authority as conditional. This assessment is being defended at the administrative level. In December 2012, the Company filed a lawsuit offering a guarantee in the amount of R\$82,390 thousand, in order to discuss a tax liability that had been constituted by the São Paulo tax authorities involving a penalty for alleged non-compliance with an ancillary obligation.

In July 2011, we filed a lawsuit objecting to the tax assessment notice issued by the State of São Paulo relating to the alleged improper crediting of ICMS due to cancellation of Telecom service due to inappropriate billing / subscription fraud in the period from March to December 2008 and alleged unfit crediting of ICMS and duplicity between August and September 2008, totaling R\$19,165 thousand. After the conclusion of administrative proceedings, when the court upheld the challenge, we have decided to keep the proceeding at the judicial level.

In July, September and October 2011 and December 2012, TIM Celular received taxes assessments notices from the tax authorities of the States of São Paulo, Mato Grosso, Paraíba and Minas Gerais in the amount of R\$304,988 thousand involving (i) the alleged failure to pay ICMS tax from having failed to include in the basis of calculation services referring to installments taxed as “non-taxable/exempt”, and (ii) the alleged failure to pay ICMS tax for having included on tax receipts the negative base by way of financial credits granted to customers involving the services contested, leading to the reversal of debits without complying with the legislation. TIM Celular is challenging these assessments at the administrative level. The amount of R\$291,097 thousand is classified as possible loss, while the amount of R\$13,891 thousand was reclassified as remote loss after partial success obtained in the proceeding of tax review. In January 2014, the Company received a notice of infraction issued by Mato Grosso State in the amount of R\$24,426 thousand. However, the tax authorities of Mato Grosso State made a mistake because the same amount is being requested in the notice of infraction issued in September 2011. This notice was immediately contested by the Company, and a decision in the administrative proceeding is pending.

In December 2011, TIM Celular received a tax assessment notice from the State of Paraná, amounting to R\$63,101 thousand. The assessment relates to the alleged offset of ICMS credits related to goods sold in other states. This assessment is being defended at the administrative level.

In December 2011, Intelig filed a lawsuit defending against a tax assessment notice received from the State of São Paulo, in the amount of R\$20,285 thousand, involving the alleged improper appropriation of ICMS tax credits. This assessment is currently being challenged at the judicial level.

In January 2012, TIM Celular filed a lawsuit to dismiss amounts claimed by the State of São Paulo on its alleged failure to pay ICMS tax in the amount of R\$34,638 thousand, regarding the administrative collection made in the year 2009. In October 2012, the tax enforcement was received. The guarantee previously offered was put up as a guarantee of payment, and a motion for stay of execution was filed.

In March 2012, TIM Celular received tax assessment notice issued by the Department of Finance of the State of Rio de Janeiro, in the amount of R\$15,603 thousand, related to extemporaneous credits arising from the acquisition of fixed assets. We have filed a writ of mandamus in the matter.

In May 2012, TIM Celular received a tax assessment notice from the State of São Paulo an amount of R\$56,082 thousand involving a supposed difference of ICMS, not included at basis of calculation on the value of existing stocks on May 31, 2009. This assessment is being challenged at the administrative level.

In May and July 2012, TIM Celular received two tax assessment notices from the states of Rio de Janeiro and Bahia, for the alleged improper crediting of ICMS related to the reversal of tax liabilities on the provision of communication services, the respective are values R\$21,159 thousand and R\$16,463 thousand. The assessment issued by the state of Rio de Janeiro is being challenged at the administrative level.

After the conclusion of the administrative proceeding of the assessment issued by the state of Bahia, the Company filed a lawsuit offering a guarantee in the amount of R\$19,208 thousand. In June 2012, TIM Celular was assessed in the amount of R\$23,571 by the State of São Paulo for alleged non-payment or delay of ICMS levied on transactions of goods receipts subject to the tax responsibility substitution regime. We are challenging these assessments at the first administrative level.

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In January 2013, TIM Celular received a tax assessment notice from the State of São Paulo, in the amount of R\$16,475 thousand challenging a tax compensation procedure based on a supposedly improper ICMS credit. TIM Celular immediately challenged this assessment notice and a decision in the administrative proceeding is pending.

In January and April 2013, TIM Celular received two tax assessment notices from the State of São Paulo, for the alleged improper crediting of ICMS related to the interstate purchase of goods with tax benefits granted in the state of origin, in the amount of R\$80,695 thousand and R\$35,500 thousand, respectively. These assessments are being challenged and the Company is awaiting decisions of the second administrative level.

In February 2013, TIM Celular received a tax assessment notice from the State of Ceará, in the amount of R\$75,170 thousand, for the alleged non-payment of ICMS, for including the tax due for the purchaser taxpayer, related to the periods of 2008 and 2009. TIM Celular immediately challenged this assessment notice and a decision in the administrative proceeding is pending. In December 2013, the Company decided to reclassify part of the amount (R\$2,346 thousand) as a probable loss.

In May 2013, the Company received a tax enforcement notice filed by the State of Rio Grande do Norte, in the amount of R\$17,918 thousand, requesting the collection of ICMS and FECOP tax liability due to the alleged practices including (i) alleged improper crediting of ICMS related to the acquisition of goods destined to fixed assets, and (ii) failure to pay ICMS on telecommunication services and marketing of goods.

In September 2013, the Company filed a lawsuit offering a guarantee in the amount of R\$17,242 thousand, in order to discuss ICMS tax liabilities constituted by the State of Bahia, related to allegedly carrying out entry and exit operations of goods transactions without the respective compliance records support

In December 2013, TIM Celular received a tax assessment in the amount of approximately R\$582 thousand, including the original amount, interest and penalties, filed by the Finance Secretary of the Federal District for alleged underpayment of ICMS from 2008 to 2012. The assessment was raised as a consequence of the Supreme Court decision that declared unconstitutional the state tax incentive entitled PRO-DF. As per this incentive, the Company was allowed to register, in some cases, an ICMS credit due to a counterparty of an investment in the State, based on part of its logistics/sales operations. The company used this credit, however following the Supreme Court decision, this has been challenged. According to the Company's counsel, the chances of loss are at maximum possible, not probable. The Company timely presented its administrative defense in January 2014.

ISS

In December 2007, TIM Celular received an assessment notice from the municipality of Rio de Janeiro for R\$94,359 thousand for the alleged failure to pay ISS on some services that, based on our internal evaluations, do not constitute basis of calculation of ISS tax: technical programming, administrative services on plan cancellation, telephone directory assistance services, provision of data and information and network infrastructure sharing. The aforementioned assessments are being challenged at the administrative level.

Since March 2011, TIM Celular received a total of 71 separate assessment notices handed down by the municipality of São Paulo with respect to ISS taxes and fines imposed on TIM Celular's revenues for R\$41,927 thousand. Our petition was unsuccessful at the administrative level for 27 assessments. Recently we received seven tax foreclosures related to those 27 assessments amounting R\$110,998 thousand. At present, the Company has provided the issuance of the guaranties to offer in the foreclosures.

FUST

On December 15, 2005, Anatel issued Ordinance No. 07 aimed, among other things, at charging FUST contributions on interconnection revenue earned by telecommunications service providers, from the date upon which Law No. 9998/2000 came into force. Based on the enacting legislation (including the provision in the sole paragraph of Article 6 of Law No. 9998/2000), the Company believes the abovementioned revenue is not subject to

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FUST charges. Management has taken the necessary measures to protect our interests and a writ of mandamus was filed to protect our interests in connection with the non-payment of FUST on interconnection revenue. Anatel's intention to charge FUST on this revenue has been suspended, due to a successful judicial decision. A decision on the writ of mandamus by the appellate court is pending.

Since October 2006, Anatel has issued a number of assessment notices against TIM Celular, in connection with FUST charges that are allegedly due on interconnection revenue for the years from 2001 to 2009, together with a fine for arrears, on account of Ordinance No. 07/05. The assessments for this period add up to a total of R\$727,787 thousand.

Since October 2006, Intelig has received a number of assessment notices from Anatel, which add up to a total amount of R\$76,067 thousand, in connection with FUST charges that are allegedly due on interconnection revenue for the periods from January to December of 2001 to 2008. The aforementioned assessments are being challenged at administrative level.

FUNTTEL

The Ministry of Communications filed assessment notices against TIM Celular amounting to R\$300,496 thousand, in connection with FUNTTEL amounts due on interconnection revenue for the years from 2001 to 2009, as well as a fine for arrears. We believe that the abovementioned revenues are not subject to FUNTTEL. A writ of mandamus was filed to safeguard our interests in relation to the non-payment of FUNTTEL on interconnection revenue, on the same grounds as those used for the FUST process. The intention to charge FUNTTEL on interconnection revenue is under suspension, due to a favorable ruling obtained in relation to the writ of mandamus that was filed by TIM Celular.

Intelig has received a number of assessment notices from the Ministry of Communications, which add up to a total amount of R\$22,001 for the periods from 2002 to 2008. These assessments are being defended at the first administrative level.

Material Proceedings with Adverse Director, Management or Affiliate

None.

Disposition of Previously Disclosed Legal Proceedings

The following legal proceedings disclosed in our annual report on Form 20-F for the year ended December 31, 2012 were resolved or settled without material impact on our operations or otherwise deemed no longer to merit special disclosure: (1) class action lawsuit against TIM Celular in Ceará questioning number of advertisements in place in Teresina; and (2) lawsuit filed with CARF in March 2005 to cancel eventual imposition of Corporate Income Tax (CIT) levied in 2002 and alleged incorrect effects of SWAP operations in the amount of R\$33,175.

Dividend Policy

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

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

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For the purposes of Brazilian corporate 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 income for each fiscal year until the amount for such reserve equals 20% of our capital. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which our legal reserve, together with our other capital reserves, exceeds 30% of our capital. Losses, if any, may be charged against the legal reserve.

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

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

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

The amounts available for distribution may be further increased by a decrease in the contingency reserve for anticipated losses anticipated in prior years but not realized. The amounts available for distribution are determined on the basis of financial statements prepared in accordance with 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 for the payment of dividends in subsequent years. Our calculation of net income and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with CVM rules and Brazilian corporate law.

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

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

In this case,

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

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For the purposes of Brazilian corporate law, 25% of the net income after income tax and social contribution for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants and employees' and management's participation in a company's profits, shall be distributed as dividends.

Payment of Dividends

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

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

B. Significant Changes

None.

Item 9. The Offer and Listing

A. Offer and Listing Details

Our common shares are listed on the Novo Mercado segment of the São Paulo Stock Exchange (BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros), or the BM&FBOVESPA, under the symbol "TIMP3" and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the symbol "TSU." The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on the NYSE, in U.S. dollars, and the common shares on the BM&FBOVESPA, in reais. On December 30, 2013, the last reported sales price of our common shares on the BM&FBOVESPA was R\$12.330 and on December 31, 2013, the last reported sales price of our ADSs on the NYSE was U.S.\$26.24.

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

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

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

| | NYSE | | BM&FBOVESPA | | BM&FBOVESPA | |
|-------------------------------------|---------------------|-------|--------------------------------|------|-----------------------------|-------|
| | HIGH | LOW | HIGH | LOW | HIGH | LOW |
| | (in U.S.\$ per ADS) | | (in reais per preferred share) | | (in reais per common share) | |
| Year ended | | | | | | |
| December 31, 2009 | 30.13 | 11.99 | 5.20 | 2.64 | 7.95 | 4.93 |
| December 31, 2010 | 35.07 | 23.58 | 5.90 | 4.27 | 8.03 | 5.78 |
| December 31, 2011 | 31.30 | 20.01 | N/A | N/A | 9.80 | 6.81 |
| December 31, 2012 | 32.99 | 16.88 | N/A | N/A | 11.95 | 6.89 |
| December 31, 2013 | 27.19 | 17.42 | N/A | N/A | 12.33 | 7.75 |
| Year ended December 31, 2012 | | | | | | |
| First quarter | 32.47 | 25.80 | N/A | N/A | 11.66 | 9.24 |
| Second quarter | 32.99 | 24.01 | N/A | N/A | 11.95 | 9.58 |
| Third quarter | 28.00 | 18.78 | N/A | N/A | 11.30 | 7.68 |
| Fourth quarter | 19.99 | 16.88 | N/A | N/A | 8.20 | 6.89 |
| Year ended December 31, 2013 | | | | | | |
| First quarter | 22.52 | 19.20 | N/A | N/A | 8.92 | 7.81 |
| Second quarter | 21.86 | 17.42 | N/A | N/A | 8.77 | 7.75 |
| Third quarter | 25.41 | 18.04 | N/A | N/A | 11.08 | 8.10 |
| Fourth quarter | 27.19 | 23.00 | N/A | N/A | 12.33 | 10.63 |
| Month ended | | | | | | |
| October 31, 2013 | 27.19 | 24.33 | N/A | N/A | 11.92 | 10.70 |
| November 30, 2013 | 25.69 | 23.00 | N/A | N/A | 11.57 | 10.63 |
| December 31, 2013 | 26.24 | 23.88 | N/A | N/A | 12.33 | 11.03 |
| January 31, 2014 | 28.83 | 25.33 | N/A | N/A | 13.71 | 12.12 |
| February 28, 2014 | 27.43 | 23.95 | N/A | N/A | 13.11 | 11.26 |
| March 31, 2014 | 25.96 | 23.76 | N/A | N/A | 11.85 | 11.18 |
| April 2014 (through April 11, 2014) | 26.30 | 23.70 | N/A | N/A | 12.00 | 10.95 |

B. Plan of Distribution

Not applicable.

C. Markets

Our common shares are listed on the Novo Mercado segment of the São Paulo Stock Exchange (BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros), or the BM&FBOVESPA, under the symbol “TIMP3” and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the symbol “TSU.” For additional detail, see “—A. Offer and Listing Details.”

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Trading on the Brazilian Stock Exchanges

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

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

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

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

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

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

Differentiated Levels of Corporate Governance and the Novo Mercado

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

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

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

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

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

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

On May 20, 2011 the Board of Directors of TIM Participações recommended to the Extraordinary General Shareholders' Meeting of the Company its migration to the Novo Mercado listing segment of BM&FBOVESPA,

which took place on June 22, 2011. With this migration TIM moved to the highest level of corporate governance. Only 26% of Brazilian listed companies are in the Novo Mercado and TIM is the only telecommunications company stock among them.

BM&FBOVESPA Market Administration Panel

Pursuant to Law No. 9,307/96, a Market Arbitration Panel (the "Panel") has been established by the BM&FBOVESPA. The Panel was established to settle certain types of disputes, including disputes relating to

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corporate governance, securities issues, financial regulatory issues and other capital market matters, with respect to BM&FBOVESPA listed companies that have undertaken to voluntarily comply with Level 2 and Novo Mercado levels of corporate governance and disclosure. The Panel will provide a forum for dispute resolution involving, among others, the BM&FBOVESPA, the applicable listed company and the shareholders, directors and management of the applicable listed company.

Regulation of Brazilian Securities Markets

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

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

Under Brazilian corporate law, a corporation is either publicly held (*companhia aberta*), as we are, or closely held (*companhia fechada*). All publicly held companies are registered with the CVM and are subject to reporting requirements. We have the option to ask that trading in securities on BM&FBOVESPA be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BM&FBOVESPA.

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

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 common 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 common 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 common shares or upon distributions relating to our common shares, unless the holder obtains a new registration. See "Item 10. Additional Information—B. 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.

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Trading on the New York Stock Exchange

We are a “controlled company” and a “foreign private issuer” within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a controlled company is exempt from certain NYSE corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the board of directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. Although we have similar practices, they do not entirely conform to the NYSE requirements, therefore we currently use these exemptions and intend to continue using them.

Code of Business Conduct and Ethics

Although adoption of a code of ethics is not required by Brazilian Corporate Law, we implemented a code of ethics regulating the conduct of our managers in connection with the registration and control of financial and accounting information and their access to privileged and nonpublic information and data to comply with the requirements of Sarbanes-Oxley and NYSE rules. See “Item 16B. Code of Ethics.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following summarizes certain material provisions of TIM’s By-laws and the Brazilian corporate 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 corporate 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 corporate purpose is to: (1) hold interest in the capital of companies that explore any type of telecommunications services, under the terms and conditions provided for in the relevant permits, authorizations or concessions, companies that develop activities that are necessary or useful to the provision of such services, or companies that provide Internet connection services, value added services and Internet application services; (2) promote, through its controlled or affiliated companies, the expansion and implementation of any type of telecommunications services, under the terms and conditions provided for in the relevant permits, authorizations or concessions; (3) promote, perform or give guidance in relation to the borrowing of funds from internal and external sources to be invested by the Company or by its controlled companies; (4) promote and incentivize study and research activities for the development of any type of telecommunications services, as well as of Internet connection services, other value added services and Internet application services; (5) provide, directly or through controlled or affiliated companies, services related to the telecommunications industry; (6) promote, incentivize and coordinate, through controlled or affiliated companies, the education and training of the staff required by the telecommunications industry in general; (7) perform or promote the importation of goods and services for the controlled or affiliated companies; (8) engage in any other activities related or akin to its purpose; and (9) hold interest in the corporate capital of other companies.

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Company Management

According to our By-laws, our Board of Directors is comprised of at least five and at most nineteen permanent members. The following is a description of some of the provisions of our By-laws concerning the Board of Directors:

- the Board of Directors has the power to approve loans and financing as well as other transactions giving rise to indebtedness, for an amount exceeding R\$300 million, as set forth in Article 22, Item XIII;
- 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, as necessary; and
- the Board of Directors has the power to authorize the Company, as well as its controlled companies and affiliates, to enter into, amend or terminate shareholders' agreements.

There are no provisions in the By-laws with respect to:

- a director's power to vote on a proposal in which such director is materially interested;
- a director's power to vote compensation to him or herself in the absence of an independent quorum;
 - borrowing powers exercisable by the directors;
 - age limits for retirement of directors;
 - required shareholding for director qualification; 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:

- the power to authorize the participation of the Company or its companies controlled in any joint venture, partnership, consortium or any similar structure;
- the power to ratify, within the limits set forth in the By-laws, the purchase of materials and equipment and the execution of property, construction work and service agreements; and
- 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 million, provided that certain provisions of the By-laws are observed.

Rights Relating to our Shares

Dividend Rights

Under our By-laws, we are required to distribute an aggregate amount equal to at least 25% of our adjusted net income to our shareholders, either as dividends or as tax-deductible interest on shareholders' equity. We may also make additional distributions to the extent of available distributable profits and reserves. Our subsidiary TIM Celular S.A.

is also subject to mandatory distribution requirements and, to the extent of distributable profits and

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

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

For the purposes of Brazilian corporate law, and in accordance with our 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 income for each fiscal year until the amount for such reserve equals 20% of our capital. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which our legal reserve, together with our other capital reserves, exceeds 30% of our capital. Losses, if any, may be charged against the legal reserve.

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

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

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

The amounts available for distribution may be further increased by a decrease in the contingency reserve for anticipated losses anticipated in prior years but not realized. The amounts available for distribution are determined on the basis of financial statements prepared in accordance with 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 for the payment of dividends in subsequent years. Our calculation of net income and

allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with CVM rules and IFRS.

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

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- its management (Board of Directors and Board of Executive Officers) and Fiscal Council report to the shareholders' meeting that the distribution would be incompatible with the financial circumstances of that company; and
 - the shareholders ratify this conclusion at the shareholders' meeting.

In this case,

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

For the purposes of Brazilian corporate law, 25% of the net income after income tax and social contribution for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants and employees' and management's participation in a company's profits, shall be distributed as dividends.

Payment of Dividends

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

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

Voting Rights

Each common share entitles the holder to one vote at meetings of shareholders.

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. If the meeting so noticed 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.

Pursuant to our By-laws and Brazilian corporate law, shareholders at our annual shareholders' meeting, which is required to be held within the first four months following the end of the fiscal year, will convene to:

- take the management accounts; examine, discuss and vote on the financial statements;
- decide on the uses to which the net income of the fiscal year should be put and on the distribution of dividends; and
- elect the members of the Fiscal Council and, when applicable, the members of the Board of Directors.

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An extraordinary shareholders' meeting shall be convened whenever the Company interests so require. Pursuant to our By-laws and Brazilian corporate law, the following actions, among others, are exclusive powers of the shareholders' meeting:

- to amend the By-laws;
- to decide on the appraisal of assets given by shareholders to pay up capital stock;
- to decide on the Company's transformation, merger, take-over and split-up; its dissolution and liquidation; to appoint and remove liquidators and appreciate their accounts;
- to suspend the rights of shareholders not in compliance with their duties imposed by law, the By-laws or the Novo Mercado Listing Rules;
 - to elect and remove, at any time, the members of the Board of Directors and the Fiscal Council;
- to determine the global or individual remuneration of the Board of Directors, Board of Executive Officers and the Fiscal Council;
 - to annually take the accounts of the management and decide on the submitted financial statements;
- to decide where the Company shall file a civil liability law suit against the management for losses in the Company's assets as provided by law;
- to resolve in compliance with all provisions of any law, the By-laws or the Novo Mercado rules about capital stock increase by means of subscription of new shares, and on the issuance of any other bonds or securities, whether in Brazil or abroad and whenever the limit of the authorized capital has been attained;
 - to decide on the withdrawal from the register of publicly-held companies before the CVM;
 - to decide on the delisting of the Company from the Novo Mercado listing segment;
- to choose a company to prepare an opinion concerning the appraisal of the Company's shares in the event of cancellation or delisting; and
- to previously approve the execution of loan agreements, management agreements and technical support services agreements, between the Company or its controlled companies, on the one hand, and the controlling shareholder or its controlled companies, affiliated or under the same control or the controlling companies of the latter, or parties related to the Company, on the other hand, after prior assessment of the Statutory Audit Committee to the effect that the terms and conditions of the agreement in question are in compliance with standards normally adopted in the market for transactions of the same nature between independent parties.

Preemptive Rights

Except in the case of a public offering of ordinary shares or convertible debentures, public subscription or a public tender offer (whereby such actions must be authorized by the Board of Directors in accordance with article 22, section II of the By-laws), 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.

Preemptive rights to purchase shares may not be offered to U.S. holders of the ADSs unless a registration statement under the Securities Act is effective with respect to the shares underlying those rights or an exemption from the registration requirements of the Securities Act 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.

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Right of Redemption

Subject to certain exceptions, the common shares are redeemable by shareholders exercising withdrawal rights in the event that shareholders representing over 50% of the voting shares adopt a resolution at a duly convened shareholders meeting to:

- reduce the mandatory distribution of dividends;
- change our corporate purpose;
- participate in a 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 corporate law;
 - change corporate form;
- approve the acquisition of another company, the price of which exceeds certain limits set forth in Brazilian corporate 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. 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.

Brazilian corporate law 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 BM&FBOVESPA Index or another stock exchange index (as defined by CVM). 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 corporate law. Currently, our common shares do not have a public float rate higher than 50%; accordingly dissenter's 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 corporate 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

common shares underlying our ADS are registered on the transfer agent's records in the name of the Brazilian Depositary.

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.

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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 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of Funds—Financial Contracts" the summary of certain financing agreements to which we have been a party, other than contracts entered into in the ordinary course of business.

D. Exchange Controls

There are no restrictions on ownership of our 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, or "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.

Under Resolution CMN 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution CMN 2,689, foreign investors are individuals, corporations, mutual funds and collective investments domiciled or headquartered abroad.

Pursuant to Resolution CMN 2,689, foreign investors must:

- appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- complete the appropriate foreign investment registration form;
- obtain registration as a foreign investor with the CVM; and
- register the foreign investment with the Central Bank.

The securities and other financial assets held by the foreign investor pursuant to Resolution CMN 2,689 must be:

- registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM; or

- registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM.

In addition, securities trading by foreign investors pursuant to Resolution CMN 2,689 is restricted to transactions carried out on the stock exchanges or organized over-the-counter markets licensed by the CVM.

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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 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. Our 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. 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.

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 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 such increases will not incur in the future or that the federal government will not impose similar restrictions on foreign repatriations in the future for similar or other reasons.

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 common 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 common 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 and regulations and other authorities thereunder as of the date hereof, all of which are subject to change. Holders of common shares or ADSs should consult their tax advisers as to the tax consequences of the ownership and disposition of common 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 common shares or ADSs.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the ownership and disposition of common 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 tax adviser about the Brazilian tax consequences of investing in common 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 (1) to the Depositary in respect of common shares underlying ADSs or (2) to a non-Brazilian holder in respect of common shares will generally not be subject to Brazilian income tax withholding.

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 Low or Nil Tax Jurisdiction (see discussion below under “—Discussion on Low or Nil Tax Jurisdictions”). Although we believe that the ADSs will not fall within the definition of assets located in

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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 common shares in Brazil or in transactions with Brazilian residents may be exempt from Brazilian income tax or taxed at a rate of 15% or 25%, depending on the circumstances. Gains realized through transactions on Brazilian stock exchanges, if carried out in accordance with Resolution CMN 2,689, as described below, are exempt from Brazilian income tax or subject to income tax at a rate of 15% if a Low or Nil Tax Jurisdiction Holder realizes the gain. 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 Low or Nil Tax Jurisdiction. Non-Brazilian holders should consult their tax advisors on the applicable income tax rate.

Non-Brazilian holders of common 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 than as described above if the investor has:

- appointed a representative in Brazil with power to take action relating to the investment in common shares;
- registered as a foreign investor with the CVM; and
- registered its investment in common shares with the Central Bank.

Under Resolution CMN 2,689, securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, securities trading is restricted under Resolution CMN 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. The preferential treatment afforded under Resolution CMN 2,689 and afforded to investors in ADSs is not available to investors resident or domiciled in Low or Nil Tax Jurisdictions.

There can be no assurance that the current preferential treatment for non-Brazilian holders of common shares under Resolution CMN 2,689 will be maintained.

Gain on the disposition of common shares, subject to the tax treatment described above, 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.

There is a possibility that gains realized by a non-Brazilian holder upon the redemption of common shares will be treated as gains from the disposition of such common 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 an investor resident in a Low or Nil Tax Jurisdiction.

Any exercise of preemptive rights relating to common shares or ADSs should not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to common shares should be subject to the same tax treatment applicable to a sale or disposition of our common shares.

The deposit of common 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 common shares is lower than

- the average price per common share on the BM&FBOVESPA on the day of the deposit; or
- if no common shares were sold on that day, the average price per common share on the BM&FBOVESPA during the fifteen preceding trading sessions.

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The difference between the amount previously registered and the average price of the common shares, calculated as set forth above, may be considered by the tax authorities as a capital gain subject to income tax. Unless the common 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: (1) 15%, for gains realized through transactions that were conducted on Brazilian stock exchanges; or (2) 15%, or 25% if realized by investors resident in Low or Nil Tax Jurisdiction, for gains realized through transactions in Brazil that were not conducted on the Brazilian stock exchanges.

The cancellation of ADSs in exchange for common shares is not subject to Brazilian income tax if the non-Brazilian holder qualifies under Resolution CMN 2,689, but is subject to the IOF/Exchange tax as described below. 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 common shares.

There can be no assurance that the current favorable tax treatment of non-Brazilian holders of common shares under Resolution CMN 2,689 will continue in the future.

Discussion on Low or Nil Tax Jurisdictions

For purposes of Brazilian law, Low or Nil Tax Jurisdictions are countries and jurisdictions that do not tax income or that have a maximum income tax rate lower than 20%. Since 1998, the Brazilian Internal Revenue Service has issued acts expressly listing the countries/jurisdictions that are to be considered low tax jurisdictions for Brazilian tax purposes. Currently, the tax authorities have deemed approximately 65 countries to be low tax jurisdictions pursuant to Normative Instruction 1,037/2010, article 1. These countries include the Bahamas, the British Virgin Islands, the Cayman Islands, Hong Kong and Singapore.

Under Brazilian tax legislation, holders domiciled in Low or Nil Tax Jurisdictions are: (1) subject to a higher rate of withholding tax on income and capital gains; (2) not entitled to exemptions for investments in the Brazilian capital markets; (3) subject to automatic application of transfer pricing rules in transactions with Brazilian legal entities that are resident in Brazil; and (4) subject to thin capitalization rules on debt with legal entities that are resident in Brazil.

On June 24, 2008, Law No. 11,727/08 introduced the concept of “privileged tax regime,” which is a tax regime that (1) does not tax income or taxes it at a maximum rate lower than 20%; (2) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; (3) does not tax or that taxes the income generated abroad at a maximum rate lower than 20%; or (4) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out. According to article 2 of Normative Instruction 1,037/2010, LLCs incorporated in the United States, among others, are listed as privileged tax regimes by the tax authorities.

In principle, the best interpretation of Law No. 11,727/08 is that the new concept of privileged tax regime should be solely applied for purposes of transfer pricing rules in export and import transactions. However, due to the recent enactment of this Law, we are unable to ascertain whether or not the privileged tax regime concept will be extended to the concept of Low or Nil Tax Jurisdiction. The provisions of Law No. 11,727/08 that refer to the privileged tax regime came into effect on January 1, 2009. Although we are of the opinion that the concept of privileged tax regime should not affect the tax treatment of a non-resident shareholder described above, we cannot assure you whether subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of privileged tax regime will extend such concept to the tax treatment of a non-resident shareholder described above.

Prospective purchasers should therefore consult with their tax advisors regarding the consequences of the implementation of Law No. 11,727/08, Normative Instruction No. 1,037/2010 and of any related Brazilian tax laws or regulations concerning Low or Nil Tax Jurisdictions and privileged tax regimes.

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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 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy." The rate of interest may not be higher than the TJLP, as determined by the Central Bank from time to time. The total amount distributed as interest on capital may not exceed, for tax purposes, the greater of:

- 50% of net income for the year in respect of which the payment is made, after the deduction of social contribution or net profits and before (1) making any deduction for corporate income taxes paid and (2) taking such distribution into account; or
- 50% of retained earnings for the year prior to the year in respect of which the payment is made.

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

Distributions of interest on capital paid to Brazilian and non-Brazilian holders of common shares, including payments to the Depository in respect of common 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 Low or Nil Tax Jurisdictions, whose 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 be made as interest on capital instead of as dividends.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of the common 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 common shares or ADSs.

Tax on Foreign Exchange and Financial Transactions

Tax on foreign exchange transactions, or the "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. The Brazilian government increased the tax rate related to foreign investments in the Brazilian financial and capital markets to 6.0%, except for investments made pursuant to Resolution CMN 2,689, which are exempted according to Decree No. 7,457/2011, which modified the IOF/Exchange Tax rate from 2.0% to zero.

The outflow of funds from Brazil related to investments carried out pursuant to Resolution CMN 2,689, including for dividend payments and return of capital, remains subject to the 0% rate. In any case, the Brazilian Government is permitted to increase the rate at any time up to 25%. However, any increase in rates may only apply to future foreign exchange transactions.

Tax on transactions involving bonds and securities, or the “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 deposit of common shares in exchange for ADSs is currently 1.5%. The rate is applied to the product of the number of common 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.

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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 common 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 common shares or ADSs as capital assets for U.S. federal income tax purposes and it does not describe all tax consequences that may be relevant to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or traders in securities or foreign currencies who use a mark-to-market method of tax accounting;
- persons holding common shares or ADSs as part of a hedge, "straddle," wash sale, conversion transaction, integrated transaction or similar transaction or persons entering into a constructive sale with respect to the common shares or ADSs;
 - 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 or the provisions of the Code known as the Medicare Contribution Tax;
 - tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";
- persons who acquired our common shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation;
 - persons holding shares in connection with a trade or business conducted outside of the United States; or
- persons holding common shares or ADSs that own or are deemed to own ten percent or more of our voting stock.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds common shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding common 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 common shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended, or 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 income tax purposes, is a beneficial owner of common 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, any state therein or the District of Columbia; or
 - an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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In general, a U.S. Holder that owns ADSs will be treated as the owner of the underlying common 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 common 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 preferential rates of tax applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the creditability of Brazilian taxes and the availability of the preferential tax rates for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of common 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 common 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 are taxable at rates applicable to long-term capital gains. 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 these preferential rates will apply to dividends they receive and whether they are subject to any special rules that limit their ability to be taxed at these preferential rates.

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 Depositary'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 Common Shares or ADSs

For U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of common shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the common shares or ADSs for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax

basis in the common 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 other disposition of common shares or ADSs, a U.S. Holder's amount realized will include the gross amount of the proceeds of such sale or other 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.

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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 common 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 common 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 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/Bond Tax and the IOF/Exchange Tax imposed on the deposit of common shares in exchange for ADSs and the cancellation of ADSs in exchange for common 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 regarding the tax treatment of these taxes 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," or PFIC, for U.S. federal income tax purposes for its 2013 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 common shares or ADSs, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the common shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the common 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 resulting tax liability for such taxable year. Similar rules would apply to any distribution received by a U.S. Holder on its common shares or ADSs to the extent in excess of 125% of the average of the annual distributions on common shares or ADSs received by a U.S. Holder during the preceding three years or such U.S. 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.

If the Company is a PFIC for any taxable year during which a U.S. Holder owned common shares or ADSs, the U.S. Holder will generally be required to file IRS Form 8621 with its annual U.S. federal income tax returns, subject to certain exceptions.

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 (1) the U.S. Holder is a corporation or other exempt recipient or (2) 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.

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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.

Certain U.S. Holders who are individuals (and certain specified entities) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, subject to exceptions (including an exception for stock held through a U.S. financial institution). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the common shares or ADSs.

U.S. HOLDERS OF OUR COMMON SHARES OR ADSs SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE BRAZILIAN, U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES OR ADSs BASED UPON THEIR PARTICULAR CIRCUMSTANCES.

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 corporate 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 common shareholders' meetings and other reports and communications that are generally made available to holders of common 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

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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, 2013, our outstanding debt accrued interest at the CDI, FIXED, TJLP and IPCA totaled R\$4,867 million. On the same date, we had cash and cash equivalents, in the amount of R\$5,288 million in instruments accruing interest at the CDI rate.

Over a 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, 2013 would have resulted in a variation of R\$48.6 million in our interest expenses from financial contracts and a variation of R\$52.9 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).

Exchange Rate Risk

As of December 31, 2013, 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 into hedging agreements to hedge our borrowings denominated in foreign currency and thus have limited our exchange rate exposure regarding such borrowings.

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

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. Description of American Depositary Receipts in Respect of Common 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 five common shares, deposited with the custodian and registered in the name of the depositary.

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Charges of Depositary

The depositary may charge U.S.\$5.00 per 100 ADSs (or portion thereof) from each person to whom ADRs are issued against deposits of common shares, including deposits in respect of distributions of additional common shares, rights and other distributions, as well as from each person surrendering ADRs for withdrawal.

In addition, the following fees and charges will be incurred by ADR holders, any party depositing or withdrawing common shares or any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by TIM Participações or an exchange of stock regarding the ADRs or deposited securities or a distribution of ADRs pursuant to the deposit agreement), whichever is applicable:

| Depositary Actions: | Description of Fees Incurred by ADR Holders per Payment: |
|--|---|
| Depositing or substituting the underlying shares | U.S.\$5.00 per 100 ADSs (or portion thereof) |
| Receiving or distributing dividends | U.S.\$0.02 or less per ADS (or portion thereof) |
| Selling or exercising rights | U.S.\$5.00 per 100 ADSs for all distributions of securities or the net cash proceeds from the sale thereof |
| Withdrawal of an underlying security | U.S.\$5.00 per 100 ADSs or portion thereof plus a U.S.\$20.00 fee |
| 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 common 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 filings with the SEC and other bona fide Program-related third party expenses.

During the year ended December 31, 2013, we received from our depositary U.S.\$1,630,843.21 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. Additional Information—E. Taxation."

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. Our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and are effective in ensuring that information to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our 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, 2013. 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 framework set in 1992. Our management concluded that as of December 31, 2013, our internal control over financial reporting was effective and had no material weaknesses, 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, 2013.

(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, 2013. Their attestation report on internal controls over financial reporting is included herein.

(d) Changes in Internal Control over Financial Reporting

The Company constantly aims to improve the quality of its internal controls over financial reporting. This may result in the modification of certain internal processes and operations, without necessarily affecting related controls. 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.

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Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Statutory Audit Committee, which functions as an audit committee, shall be comprised of at least three and at most five members and an equal number of alternates, who may or may not be shareholders, elected by the Board of Directors. This year we have three members. Our Statutory Audit Committee has determined that one of its members, Mr. Samuel de Paula Matos, an independent members of our Statutory Audit Committee under Brazilian rules, is an “audit committee financial expert,” as such term is defined by the SEC.

Item 16B. Code of Ethics

We have adopted a Code of Conduct and Transparency that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and persons performing similar functions, as well as to our other Directors, Executive Officers, controlling shareholders and members of our Statutory Audit Committee in accordance with CVM rules satisfying the requirements of Brazilian Law. Our Code of Conduct and Transparency is filed as an exhibit to this annual report and is available on our website at <http://www.tim.com.br/ir>. 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. Information on the Company—A. History and Development of the Company—Basic Information.” The Code of Conduct and Transparency was updated on the Board of Directors’ meeting held on May 3, 2010.

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 Sarbanes-Oxley. However, pursuant to company policy and section 156 of Brazilian corporate 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.

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, during the years ended December 31, 2013 and 2012:

| | Year ended December 31, | |
|--------------------|-------------------------|-------|
| | 2013 | 2012 |
| | (in thousands of reais) | |
| Audit fees | 2,834 | 2,654 |
| Audit-related fees | 1,098 | 615 |
| Tax fees | — | 63 |

| | | |
|----------------|-------|-------|
| All other fees | — | — |
| Total fees | 3,932 | 3,332 |

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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.

In 2013, our external auditors provided audit and audit-related services other than in connection with the audit of our financial statements. Such services included (1) services related to the audit of our internal controls over financial reporting, (2) accounting assistance and advice, (3) agreed procedures for aspects of regulatory accounting, and (4) tax audit assistance.

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 Statutory Audit Committee. Accordingly, the Statutory Audit Committee has established pre-approval procedures to control the provision of all audit and non-audit services by our independent auditors, or the Pre-Approval Policy. Under the Pre-Approval Policy, the engagement of our independent auditors to provide audit and non-audit services must be pre-approved by the Statutory Audit Committee, either in the form of a special approval or through the inclusion of the services in question in a list adopted by the Statutory Audit 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 Statutory Audit 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 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

Not applicable. We have created a Statutory Audit Committee in accordance with Exchange Act Rule 10A-3 and CVM Instruction 509/2011. For more details, see "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Statutory Audit Committee."

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

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 corporate 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 corporate 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.

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Committees

Even though we are not required under applicable Brazilian corporate law to have special advisory committees of the Board of Directors, we have three such committees: the Statutory Audit Committee, the Internal Control and Corporate Governance Committee and the Compensation Committee. The first was implemented on December 12, 2013 and the last two were implemented on September 30, 2008. Pursuant to our By-laws, our shareholders elect our directors at a general shareholders' meeting. Our shareholders also establish compensation for our directors and executive officers.

Audit Committee and Additional Requirements

The Statutory Audit Committee was created and its members appointed at the shareholders' meeting held on December 12, 2013, in accordance with Rule 10A-3 under Section 301 of Sarbanes-Oxley and CVM Instruction 509/2011. The Statutory Audit Committee's internal regulations were approved at the Board of Directors meeting held on December 23, 2013.

The Statutory Audit Committee is composed of at least three (3) and at the most five (5) members, all elected by the Board of Directors, who serve two-year terms of office, matching the terms of the members of the Board of Directors. Re-election is permitted up to, for a maximum period of 10 years. Our Board of Directors may dismiss members of the Statutory Audit Committee at any time and without cause.

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. Since we have migrated to the BM&FBOVESPA's Novo Mercado, we are subject to those rules on corporate governance, which include 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.

Item 16H. Mine Safety Disclosure

Not applicable.

Item 17. Financial Statements

We have responded to Item 18.

Item 18. Financial Statements

See our audited consolidated financial statements beginning at page F-1.

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Item 19. Exhibit Index

EXHIBIT INDEX

- 1.1 By-laws of TIM Participações S.A. approved at the Annual Shareholder’s Meeting held on April 11, 2012, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 2.1 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* Promissory Note, dated as of July 31, 2013, between Bank of America, N.A., as bank, TIM Celular S.A., as borrower.
- 4.2* Master Loan Agreement, dated as of June 20, 2013, between Cisco Systems Capital Corporation, as lender, TIM Celular S.A., as borrower.
- 4.3* Facility Agreement, dated as of August 28, 2013, between Cisco Systems Capital Corporation, as lender, and TIM Celular S.A., as borrower.
- 4.4* Promissory Note, dated as of September 19, 2013, between JPMorgan Chase Bank, National Association, as lender, and TIM Celular S.A., as borrower.
- 4.5* English Summary of Credit Agreement, dated as of December 23, 2013, between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), as lender, TIM Celular S.A., as borrower, and TIM Participações S.A. as guarantor.
- 4.6* English Summary of Term of Authorization for Use of Radiofrequencies, dated as of April 3, 2013, between Anatel (the National Telecommunications Agency) and TIM Celular S.A.
- 4.7 Fourth Amendment, dated as of December 10, 2012, to the Loan Agreement between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), as lender, and TIM Nordeste S.A. and TIM Celular S.A., as borrowers, dated November 19, 2008 (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on April 26, 2013.
- 4.8 Fifth Amendment, dated as of December 10, 2012, to the Loan Agreement between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), as lender, and TIM Nordeste S.A. and TIM Celular S.A., as borrowers, dated November 19, 2008 (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on April 26, 2013.
- 4.9 Credit Agreement, dated as of January 28, 2008, between TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.10 Finance Contract, dated as of December 29, 2011, among European Investment Bank, as lender, 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 May 14, 2012.
- 4.11 Loan Agreement dated as of September 5, 2011, between Tim Celular and JP Morgan, under Resolution CMN No. 4131, which is incorporated by reference to our annual report filed on Form 20-F with the

Securities and Exchange Commission on May 14, 2012.

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- 4.12 Loan Agreement dated as of September 6, 2011, between Tim Celular and Bank of America, under Resolution CMN No. 4131, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.13 Credit Agreement, dated as of August 22, 2011, between Itaú as lender, and Eletropaulo Comunicações Ltda. (as later denominated TIM Fiber SP Ltda.) acquired by TIM Celular on October 2011, as borrower (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.14 Credit Agreement, dated as of August 22, 2011, between Itaú as lender, and Eletropaulo Comunicações Ltda. (as later denominated TIM Fiber SP Ltda.) acquired by TIM Celular on October 2011, as borrower (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.15 Credit Agreement, dated as of August 22, 2011, between Itaú as lender, and AES Communications Rio de Janeiro S/A. (as later denominated TIM Fiber RJ S/A) acquired by TIM Celular on October 2011, as borrower (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.16 Term of Authorization for provision of PCS service dated March 12, 2001 (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.17 Term of Authorization for provision of PCS services dated February 26, 2010 authorization (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.18 Term of Authorization for provision of PCS services dated November 29, 2010 (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.19 Amendment No. 5 to Cooperation and Support Agreement with Telecom Italia dated April 24, 2012, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 14, 2012.
- 4.20 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.
- 4.21 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.
- 4.22 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.
- 4.23 Addendum to the Loan Agreement dated as of November 19, 2008, between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), 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.

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- 4.24 Loan Agreement, dated as of November 19, 2008, between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), 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.
- 4.25 Addendum to the Credit Agreement dated as of November 19, 2008, between BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), 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.
- 4.26 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.
- 4.27 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.
- 4.28 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.
- 4.29 Credit Agreement, dated as of August 10, 2005, among BNDES, the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social), 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.
- 4.30 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 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.
- 4.32 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.
- 4.33 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.

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- 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 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.
- 4.40 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.
- 4.41 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 November 30, 2005, between Anatel (the National Telecommunications Agency) and Intelig Telecomunicações Ltda.
- 4.46 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.
- 4.47 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.
- 6.1 Statement regarding computation of per share earnings, which is incorporated by reference to Note 37 to our consolidated financial statements included in this annual report.
- 8.1* List of Significant Subsidiaries.
- 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.
- 13.2* Section 906 Certification of the Chief Financial Officer.
- 15.1* Consent of PricewaterhouseCoopers Auditores Independentes.

* 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.

3G: The third generation of mobile telecommunications network technology that comply with the IMT-2000 standard as defined by the International Telecommunications Union (ITU).

4G: The fourth generation of mobile telecommunications network technology succeeding 3G, which comply with the IMT-Advanced standard as defined by the International Telecommunications Union (ITU).

Access Network: The part of a telecommunications network which connects subscribers to their immediate service provider. It is contrasted with the core network, which connects local providers to each other.

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).

Core Network: The central part of a telecommunication network that connects local providers to each other and provides various services to customers who are connected by the access network.

CDMA (Code Division Multiple Access): A standard of digital mobile telecommunications technology.

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.

FDD (Frequency Division Duplex): A technology used in wireless communications where the uplink and the downlink use a different frequency.

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.”

LTE: Long Term Evolution, or a wireless broadband technology designed to support roaming Internet access via cell phones and handheld devices

MMDS: A multichannel multipoint distribution service.

MMS: An enhanced version of short message services, which allows users the capability to send, in a single message, multiple color images, sounds and different size text to another mobile phone or email account.

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.

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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.

RAN: A radio access network, or the wireless radio frequency-based portion of a network providing access from a mobile terminal device (transmitter/receiver) to the core, or backbone, network of the radio service provider and ultimately to the public switched telephone network or the Internet or other IP-based network.

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.

SMS: Two-way short (or text) message services, allowing users to send and receive short messages to and from users of networks of other carriers.

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.

UMTS (Universal Mobile Telecommunications System): A third-generation mobile communication standard in which data travels at 2 Mbps over a broadband system.

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: April 15, 2014

By: /s/ Rodrigo Modesto de Abreu
Name: Rodrigo Modesto de
Abreu
Title: Chief Executive Officer

By: /s/ Claudio Zezza
Name: Claudio Zezza
Title: Chief Financial Officer

TIM Participações S.A. and
Subsidiaries
Financial statements as at
December 31, 2013, 2012 and 2011
and independent auditor's report

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Report of independent registered
public accounting firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of TIM Participações S.A. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity 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, 2013, based on criteria established in Internal Control - Integrated Framework (1992) 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 Annual 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.

Rio de Janeiro, April 15, 2014

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" RJ

/s/ Sérgio Eduardo Zamora
Sérgio Eduardo Zamora
Contador CRC 1SP168728/O-4 "S" RJ

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TIM Participações S.A. and subsidiaries

Balance sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

| Assets | 2013 | 2012 | Liabilities | 2013 | 2012 |
|---|------------|-----------|---|-----------|-----------|
| Current assets | | | Current liabilities | | |
| Cash and cash equivalents (Note 6) | 5,287,642 | 4,429,780 | Suppliers (Note 18) | 5,255,337 | 4,293,121 |
| Financial assets valued at fair value through profit or loss (Note 7) | | 810 | Borrowings and financing (Note 19) | 966,658 | 951,013 |
| Trade accounts receivable (Note 8) | 3,513,029 | 3,650,871 | Leases (Note 17) | 9,557 | |
| Inventories (Note 9) | 296,829 | 269,145 | Derivative transactions (Note 40) | 44,418 | 42,061 |
| Indirect taxes and contributions recoverable (Note 10) | 913,215 | 906,101 | Labor obligations (Note 20) | 170,556 | 133,283 |
| Direct taxes and contributions recoverable (Note 11) | 370,626 | 331,225 | Indirect taxes, fees and contributions (Note 21) | 580,625 | 635,061 |
| Prepaid expenses (Note 13) | 206,354 | 180,371 | Direct taxes, fees and contributions (Note 22) | 115,103 | 204,917 |
| Derivative transactions (Note 40) | 11,969 | 104,712 | Dividends payable (Note 26) | 396,879 | 373,241 |
| Other assets (Note 15) | 141,140 | 94,702 | Authorizations payable (Note 2) | 77,216 | 369,583 |
| | | | Other liabilities (Note 23) | 431,754 | 372,942 |
| | 10,740,804 | 9,967,717 | | 8,048,103 | 7,375,222 |
| Non-current assets | | | Non-current liabilities | | |
| Long-term receivables | | | Borrowings and financing (Note 19) | 3,779,998 | 3,439,082 |
| Financial assets valued at fair value through profit or loss (Note 7) | 28,681 | 21,834 | Derivative transactions (Note 40) | | 36,144 |
| Trade accounts receivable (Note 8) | 35,959 | 61,305 | Leases (Note 17) | 313,113 | |
| Indirect taxes and contributions recoverable (Note 10) | 536,757 | 215,261 | Indirect taxes, fees and contributions (Note 21) | 86 | 246,180 |
| Direct taxes and contributions recoverable (Note 11) | 22,537 | 21,658 | Direct taxes, fees and contributions (Note 22) | 226,668 | 175,892 |
| Deferred income tax and social contribution (Note 12) | 1,064,721 | 1,252,018 | | | |

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| | | | | | |
|---|------------|------------|--|------------|------------|
| Judicial deposits (Note 14) | 720,261 | 821,312 | Deferred income tax and social contribution (Note 12) | 337,770 | 196,806 |
| Prepaid expenses (Note 13) | 96,906 | 94,038 | Provision and contingencies (Note 24) | 372,075 | 311,287 |
| Derivative transactions (Note 40) | 234,894 | 84,095 | Pension plans and other post-employment benefits (Note 41) | 1,084 | 4,486 |
| Other assets (Note 15) | 13,224 | 14,040 | Provision for future asset retirement (Note 25) | 299,813 | 298,808 |
| | 2,753,940 | 2,585,561 | Other liabilities (Note 23) | 164,817 | 192,200 |
| | | | | 5,495,424 | 4,900,885 |
| Property, plant and equipment (Note 16) | 8,207,242 | 7,566,510 | Total Liabilities | 13,543,527 | 12,276,107 |
| Intangible assets (Note 17) | 6,436,181 | 5,989,189 | | | |
| | 17,397,363 | 16,141,260 | Shareholders' equity (Note 26) | | |
| | | | Capital | 9,839,770 | 9,839,770 |
| | | | Capital reserves | 1,217,640 | 387,000 |
| | | | Carrying value adjustments | 2,013 | (232) |
| | | | Revenue reserves | 3,538,586 | 3,609,701 |
| | | | Treasury shares | (3,369) | (3,369) |
| | | | Total shareholders' equity | 14,594,640 | 13,832,870 |
| Total assets | | | Total liabilities and shareholders' equity | 28,138,167 | 26,108,977 |
| | 28,138,167 | 26,108,977 | | | |

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TIM Participações S.A. and subsidiaries

Statements of income

Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

| | 2013 | 2012 (Reclassified) | 2011 (Reclassified) |
|--|--------------|------------------------|------------------------|
| Net operating revenues (Note 27) | 19,921,291 | 18,763,947 | 17,085,977 |
| Cost of services rendered and goods sold (Note 29) | (10,822,202) | (9,880,984) | (8,542,639) |
| Gross income | 9,099,089 | 8,882,963 | 8,543,338 |
| Operating revenues (expenses) | | | |
| Sales (Note 30) | (4,911,522) | (4,774,161) | (4,848,512) |
| General and administrative (Note 31) | (1,012,556) | (1,029,943) | (963,394) |
| Other operating expenses, net (Note 32) | (736,138) | (755,489) | (663,783) |
| | (6,660,216) | (6,559,593) | (6,475,689) |
| Operating income | 2,438,873 | 2,323,370 | 2,067,649 |
| Finance income (costs): | | | |
| Finance income (Note 33) | 451,391 | 479,015 | 480,429 |
| Finance costs (Note 34) | (749,700) | (644,754) | (725,116) |
| Foreign exchange variations, net (Note 35) | (4,411) | (4,151) | 519 |
| | (302,720) | (169,890) | (244,168) |
| Income before income and social contribution taxes | 2,136,153 | 2,153,480 | 1,823,481 |
| Income tax and social contribution (Note 36) | (630,539) | (704,592) | (545,636) |
| Net income for the year | 1,505,614 | 1,448,888 | 1,277,845 |
| Earnings per share attributable to shareholders of the Company (in R\$ per share) | | | |
| Basic earnings per share (Note 37) | 0.6230 | 0.5995 | 0.5645 |
| Diluted earnings per share (Note 37) | 0.6228 | 0.5994 | 0.5642 |

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TIM Participações S.A. and subsidiaries

Statements of comprehensive income

Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

| | 2013 | 2012 | 2011 |
|--|-----------|-----------|-----------|
| Net income for the year | 1,505,614 | 1,448,888 | 1,277,845 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Pension plans and other post-employment benefits (Note 41) | 2,245 | (232) | - |
| Total comprehensive income for the year | 1,507,859 | 1,448,656 | 1,277,845 |
| Attributable to | | | |
| Shareholders of the Company | 1,507,859 | 1,448,656 | 1,277,845 |

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

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TIM Participações S.A. and subsidiaries

Statements of changes in shareholders' equity

In thousands of reais (A free translation of the original in Portuguese)

| | Revenue reserves | | | | | | Retained earnings | Total |
|---|------------------|------------------|---------------|-----------------------|-------------------------------|-----------------------------|-------------------|------------|
| | Capital | Capital reserves | Legal reserve | Reserve for expansion | Proposed additional dividends | Treasury shares adjustments | | |
| Balances at December 31, 2010 | 8,149,096 | 396,129 | 226,848 | 1,528,736 | - | - | | 10,300,809 |
| Total comprehensive income for the year | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | 1,281,228 | 1,281,228 |
| Total comprehensive income for the year | - | - | - | - | - | - | 1,281,228 | 1,281,228 |
| Total contributions by and distributions to shareholders | | | | | | | | |
| Stock options (Note 27) | | 3,929 | | | | | | 3,929 |
| Treasury shares | | | | | | (3,369) | | (3,369) |
| Increase in capital through transfer of reserves (Note 27) | 15,569 | (15,569) | | | | | | |
| Capital increase due to the public offering of shares (Note 27) | 1,640,854 | | | | | | | 1,640,854 |
| | 81,368 | | | | | | | 81,368 |

| | | | | | | | | |
|--|-----------|-----------|---------|-----------|---------|---------|-------------|-----------------------|
| Capital increase due to over-allotment of shares (Note 27) | | | | | | | | |
| Costs from public offering of shares (Note 27) | (47,117) | | | | | | | (47,117) |
| Business combination impact | | | | (3,383) | | | | (3,383) |
| Allocation of net income for the year: | | | | | | | - | |
| Legal reserve (Note 26) | | | 64,061 | | | | | (64,061) |
| Dividends (Note 26) | | | | | | | | (304,292) (304,292) |
| Recognition of reserve for expansion (Note 26) | - | - | - | 912,875 | | | | (912,875) |
| Dividends recorded directly in shareholders' equity | - | - | - | 3,327 | | | | 3,327 |
| Total contributions by and distributions to shareholders | 1,690,674 | (11,640) | 64,061 | 912,819 | (3,369) | | (1,281,228) | 1,371,317 |
| Balances at December 31, 2011 | 9,839,770 | 384,489 | 290,909 | 2,441,555 | - | (3,369) | | 12,953,354 |
| Total comprehensive income for the year | | | | | | | | |
| Net income for the year | | | | | | | 1,448,888 | 1,448,888 |
| Effect of supplementary retirement amount recorded directly in the subsidiary's shareholders' equity | | | | | | | (232) | (232) |

| | | | | |
|--|-------|----------|-----------|-----------|
| T o t a l comprehensive income for the year | - | (232) | 1,448,888 | 1,448,656 |
| Total contributions by and distributions to shareholders | | | | |
| Stock options (Note 27) | 2,511 | | | 2,511 |
| Effect of merger of subsidiaries TIM Fiber SP and TIM Fiber RJ | | (1,477) | | (1,477) |

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TIM Participações S.A. and subsidiaries

Statements of changes in shareholders' equity

In thousands of reais (A free translation of the original in Portuguese)

| | Capital | Capital reserves | Legal reserve | Revenue reserves Reserve for expansion | Proposed dividends | Treasury shares | Carrying value adjustments | Retained earnings | Total |
|--|-----------|------------------|---------------|---|--------------------|-----------------|----------------------------|-------------------|------------|
| Allocation of net income for the year: | | | | | | | | | |
| Legal reserve (Note 26) | | | 72,444 | | | | | (72,444) | |
| Dividends (Note 26) | | | | | | | | (344,111) | (344,111) |
| Recognition of reserve for expansion (Note 26) | | | | 1,032,333 | | | | (1,032,333) | |
| Supplementary dividends | | | | | (229,160) | | | | (229,160) |
| Dividends recorded directly in shareholders' equity | | | | 3,097 | | | | | 3,097 |
| Total contributions by and distributions to shareholders | | 2,511 | 72,444 | 804,793 | | | | (1,448,888) | (569,140) |
| Balances at December 31, 2012 | 9,839,770 | 387,000 | 363,353 | 3,246,348 | | (3,369) | (232) | | 13,832,870 |
| | | | | | | | | | |
| | | | | | | | | | |
| T o t a l comprehensive income for the year | | | | | | | | | |

| | | | | | | |
|--|---------|--------|------------|-------------|------------|-----------|
| Net income for the year | | | | 1,505,614 | 1,505,614 | |
| Effect of retirement benefit supplement recorded directly in the subsidiary's equity | | | | 2,245 | 2,245 | |
| Total comprehensive income for the year | | | | 2,245 | 1,505,614 | 1,507,859 |
| Total contributions by and distributions to shareholders | | | | | | |
| Stock options (Note 27) | 4,244 | | | | 4,244 | |
| Allocation of net income for the year: | | | | | | |
| Legal reserve (Note 26) | | 75,281 | | (75,281) | | |
| D i v i d e n d s (Note 26) | | | | (357,583) | (357,583) | |
| Classification as reserve for tax benefits | 826,396 | | (699,201) | (127,195) | | |
| Proposed additional dividends 2013 | | | 485,722 | (485,722) | - | |
| Recording of reserve for expansion (Note 26) | | | 459,833 | (459,833) | | |
| Supplementary dividends | | | (398,889) | | (398,889) | |
| Dividends recorded directly in shareholders' equity | | | 4,805 | | 4,805 | |
| Reversal of put option balance | | | 1,334 | | 1,334 | |
| | 830,640 | 75,281 | (632,118) | (1,505,614) | (746,089) | |

Total
contributions
by and
distributions to
shareholders

Balances at
December 31,

| | | | | | | | |
|------|-----------|-----------|---------|-----------|---------|-------|------------|
| 2013 | 9,839,770 | 1,217,640 | 438,634 | 3,099,952 | (3,369) | 2,013 | 14,594,640 |
|------|-----------|-----------|---------|-----------|---------|-------|------------|

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

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TIM Participações S.A. and subsidiaries

Statements of cash flows
 Years ended December 31
 In thousands of reais

(A free translation of the original in Portuguese)

| | 2013 | 2012 (Reclassified) | 2011 (Reclassified) |
|---|-------------|------------------------|------------------------|
| Operating activities | | | |
| Income before income tax (IR) and social contribution (CSLL) | 2,136,153 | 2,153,480 | 1,823,481 |
| Adjustments to reconcile income to net cash from operating activities: | | | |
| Depreciation and amortization | 2,767,870 | 2,688,588 | 2,595,968 |
| Residual value of property, plant and equipment and intangible assets written-off | 11,889 | 13,927 | 20,904 |
| Interest on asset retirement obligations | 4,144 | 2,617 | (1,144) |
| Recognition (reversal) of provision and contingencies | 287,174 | 236,047 | 170,341 |
| Monetary adjustment of judicial deposits and contingencies | 64,020 | 35,419 | (8,643) |
| Monetary adjustment of dividends | 7,564 | - | - |
| Interest, monetary and exchange variations and other financial adjustments | 496,884 | 284,880 | 459,363 |
| Provision for doubtful debts (Note 8) | 240,051 | 250,972 | 231,529 |
| Stock options (Note 27) | 4,244 | 2,511 | 3,929 |
| | 6,019,993 | 5,668,441 | 5,295,728 |
| Decrease (increase) in operating assets | | | |
| Trade accounts receivable | (3,909) | (541,421) | (782,853) |
| Taxes and contributions recoverable | (355,737) | 197,651 | (376,974) |
| Inventories | (27,684) | 4,026 | (39,379) |
| Prepaid expenses | (28,851) | (68,342) | (11,418) |
| Judicial deposits | 134,096 | (181,383) | (185,610) |
| Other assets | (41,068) | (24,501) | 33,400 |
| Increase (decrease) in operating liabilities | | | |
| Labor obligations | 37,273 | (12,520) | 11,606 |
| Suppliers | 895,908 | 550,594 | 573,532 |
| Taxes, fees and contributions | (644,194) | (625,864) | 63,387 |
| Authorizations payable | (292,366) | 327,162 | 2,122 |
| Provision and contingencies | (323,451) | (222,000) | (218,105) |
| Other liabilities | (100,508) | 46,352 | (5,849) |
| Net cash from operating activities | 5,269,502 | 5,118,195 | 4,359,587 |
| Investment activities | | | |
| Financial assets stated at fair value through profit or loss | (6,037) | 5,101 | 5,744 |
| Additions to property, plant and equipment and intangible assets | (3,557,767) | (3,764,726) | (3,027,113) |
| Asset retirement obligations | (3,139) | 34,273 | 7,324 |

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| | | | |
|---|--------------|--------------|--------------|
| Cash from the acquisition of TIM Fiber RJ and TIM Fiber SP | - | - | 18,973 |
| Acquisition of TIM Fiber RJ and TIM Fiber SP | - | - | (1,529,588) |
| Net cash from (used in) investment activities | (3,566,943) | (3,725,352) | (4,524,660) |
| Financing activities | | | |
| Capital increase | - | - | 1,722,222 |
| Costs from the Issuance of Shares | - | - | (47,117) |
| Treasury shares | | | (3,369) |
| New borrowings | 1,109,757 | 1,694,750 | 892,866 |
| Repayment of borrowings | (1,260,914) | (1,323,243) | (939,119) |
| Payment of financial lease | (1,913) | - | - |
| Reimbursement to shareholders - reverse stock split of TIM Fiber RJ S.A. shares | (31) | (549) | - |
| Derivative transactions | 42,513 | (73,593) | (87,433) |
| Dividends paid | (734,908) | (523,283) | (486,354) |
| Reimbursement of dividends | 799 | - | - |
| Net cash used in financing activities | (844,697) | (225,918) | 1,051,696 |
| Increase (decrease) in cash and cash equivalents | 857,862 | 1,166,925 | 886,623 |
| Cash and cash equivalents at the beginning of the year | 4,429,780 | 3,262,855 | 2,376,232 |
| Cash and cash equivalents at the end of the year | 5,287,642 | 4,429,780 | 3,262,855 |

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TIM Participações S.A. and subsidiaries

Statements of cash flows

Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

Supplementary disclosure about consolidated cash flow

| | 2013 | 2012 | 2011 |
|---|---------|---------|---------|
| Interest paid | 230,238 | 299,739 | 225,180 |
| Income tax and social contribution paid | 319,765 | 287,439 | 269,827 |

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

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(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

1 Operations

TIM Participações S.A. ("TIM Participações" or "Company" or "Group") is a publicly-held corporation based in the city of Rio de Janeiro and is a subsidiary of TIM Brasil Serviços e Participações S.A. ("TIM Brasil"). TIM Brasil is a subsidiary of the Telecom Italia Group and holds 66.68% of the capital of TIM Participações at December 31, 2013 and 2012. The Company's main purpose is to control companies providing telecommunications services, including personal mobile telephones in their areas of concession and/or licenses. The services provided by TIM Participações' subsidiaries are regulated by the Agência Nacional de Telecomunicações ("Anatel").

The Company's shares are traded on the BM&F/Bovespa. Additionally, TIM Participações trades its Level II American Depositary Receipts (ADRs) on the New York Stock Exchange. Accordingly, the Company is subject to the rules of the Brazilian Securities Commission (Comissão de Valores Mobiliários or "CVM") and the U.S. Securities and Exchange Commission ("SEC"). In accordance with good market practice, TIM Participações adopts the practice of simultaneously releasing its financial information in Reais in both markets, in Portuguese and English.

Direct subsidiaries

(a) TIM Celular S.A. ("TIM Celular")

The Company holds 100% of TIM Celular. This subsidiary provides Landline Telephone Services ("STFC") - Domestic Long Distance and International Long Distance voice services; Personal Mobile Service ("SMP"); and Multimedia Communication Service ("SCM") in all Brazilian states and in the Federal District.

(b) Intelig Telecomunicações Ltda. ("Intelig")

The Company also holds 100% of Intelig's shares. This company provides STFC and SCM services in all Brazilian states and in the Federal District (DF).

2 Licenses for radio frequencies

Licenses to use radio frequencies for SMP services are for a fixed period and in most cases may be renewed for a further 15 years. Licenses held by the subsidiary TIM Celular as of December, 31, 2013, as well as their expiration dates, are shown in the table below. The cost of renewal is included in the Instrument of Licenses for Radiofrequencies and consists of biannual payment to the Granting Authority of the amount equal to 2% of the net revenues recorded in the year that ends each biannual period. The payment considers only the net revenues directly related to the regions covered by each renewed license. As of December 31, 2013, the Company had accounts payable related to the licenses renewal in the amount of R\$77,216.

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(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

| | | | | | | Expiration date |
|--|-------------------|--|---------------------------------------|-------------------------------------|-------------------------------|--|
| Concession areas | 450 MHz | 800MHz, 900 MHz and 1.800 MHz | Additional frequencies 1800 MHz | 1900 MHz and 2100 MHz (3G) | 2500 MHz (Band V1 - 4G) | 2500 MHz (Band P*** - 4G) |
| Amapá, Roraima, Pará, Amazonas and Maranhão | | Mar. 2016 | Apr. 2023 | Apr. 2023 | Oct. 2027 | AM - Sept. 2014 PA - Feb. 2024* |
| Rio de Janeiro and Espírito Santo | Oct. 2027 | Mar. 2016 | ES - Apr. 2023- | Apr. 2023 | Oct. 2027 | RJ - Feb. 2024* |
| Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás, Rio Grande do Sul (except municipality of Pelotas and region) and municipalities of Londrina and Tamarana in Paraná | PR - Oct. 2027 | Mar. 2016 | Apr. 2023- | Apr. 2023 | Oct. 2027 | DF - Feb. 2024* |
| São Paulo Paraná (except municipalities of Londrina and Tamarana) | Oct. 2027 | Mar. 2016 | Apr. 2023- | Apr. 2023 | Oct. 2027 | - Feb. 2024* |
| Santa Catarina Municipality and region of Pelotas in Rio Grande do Sul | Oct. 2027 | Sept. 2022* | Apr. 2023 | Apr. 2023 | Oct. 2027 | - - |
| | | Sept. 2023* | Apr. 2023 | Apr. 2023 | Oct. 2027 | - |
| | | Apr. 2024* | | Apr. 2023 | Oct. 2027 | - |
| Pernambuco Ceará | | May, 2024* | | Apr. 2023 | Oct. 2027 | - - |
| | | | | Apr. 2023 | Oct. 2027 | - |

| | Nov. 2023* | | | | |
|--|---------------|-----------|-----------|-----------|-----------|
| Paraíba | Dec. 2023* | | Apr. 2023 | Oct. 2027 | - |
| Rio Grande do Norte | Dec. 2023* | | Apr. 2023 | Oct. 2027 | - |
| Alagoas | Dec. 2023* | | Apr. 2023 | Oct. 2027 | - |
| | Mar. 2024* | | | | |
| Piauí | | | Apr. 2023 | Oct. 2027 | - |
| Minas Gerais (except municipalities of the PGO sector 3 for 3G radio frequencies and others) | Apr. 2013 | Apr. 2023 | Apr. 2023 | Oct. 2027 | Feb. 2015 |
| | Aug. 2027* | | | | |
| Bahia and Sergipe | | | Apr. 2023 | Oct. 2027 | - |

* Agreements already renewed for 15 years; therefore, they are not entitled to a new renewal period.

** Only supplementary areas in the specific states

Regarding licenses held for provision of services for the 4th Generation of SMP ("4G"), on October 16, 2012, TIM Celular, together with the other winning bidders, signed the aforesaid Instrument of Authorization. The subsidiary paid the equivalent of 10% of the amount attributed to the Concession Instrument in the G4 auction, disbursing R\$ 36.478. The remaining 90% was settled on May 29, 2013, and although the levying of monetary correction on this last installment, amounting to R\$ 24,586 and which to date has not been provided, due to a favorable opinion from the Office of the Federal Attorney General (Opinion n. 4.814/2013), there is still no final decision from the Agency.

Also on October 16, 2012, Intelig was authorized to use the 450MHz radio frequency, so as to meet the rural telephone commitments arising from Bid Notice No. 004/2012/PVCP/SPV - Anatel.

The terms of the STFC and SCM Licenses held by TIM Participações' subsidiaries are undetermined.

3 Basis for preparation and submission of financial statements

The significant accounting policies applied to the preparation of these financial statements are described below. These policies were consistently applied in the periods presented, unless otherwise indicated.

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(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

(a) General preparation and disclosure criteria

The financial statements were prepared taking into account the historical cost as the base value for financial assets and liabilities (including derivative instruments) evaluated at fair value.

The consolidated financial statements were prepared and are shown according to the accounting practices adopted in Brazil (which take into account the pronouncements issued by the Accounting Pronouncements Committee- "CPCs") and according to the International Financial Reporting Standards - "IFRS"). Without divergences in the application of the CPCs/IFRS, the Company adopts accounting practices based on the Brazilian Corporate Law and Specific Rules issued by CVM and Anatel.

Assets and liabilities are reported according to their degree of liquidity and liability. They are reported as current when they are likely to be realized or settled over the next twelve months. Otherwise, they are recorded as non-current. The only exception to this procedure involves deferred income tax and social contribution balances, both assets and liabilities, which must always be recorded as non-current, in accordance with the provisions of pronouncement IAS 1 (CPC 26).

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's Management in the process of applying the Group's accounting policies. Those areas requiring a greater level of judgment and with greater complexity, as well as the areas in which assumptions and estimates are material to the financial statements, are described in Note 5.

(b) Comparability of financial statements

Reclassification for better disclosure

(b.1) Reclassification in the income statement from the "Other operating expenses" group, to the "Financial costs" group, referring to monetary restatement on tax contingencies.

(b.2) Reclassification in the income statement from the "Exchange variations, net" group, to the "Financial costs" and "Financial income" groups refers to interest on swap transactions.

(b.3) In the cash flows statement, elimination of the effect of yields of the financial investments from "operational activities" as it is yields from cash and cash equivalents.

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(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

| Statements of income: | 2012 | | | |
|--|--------------|----------|------------|--------------|
| | Original | b.1 | b.2 | Reclassified |
| Net operating revenues | 18,763,947 | | | 18,763,947 |
| Costs of services provided and goods sold | (9,880,984) | | | (9,880,984) |
| Gross income | 8,882,963 | | | 8,882,963 |
| Operating revenues (expenses): | | | | |
| Sales | (4,774,161) | | | (4,774,161) |
| General and administrative | (1,029,943) | | | (1,029,943) |
| Other operating revenues (expenses), net | (757,414) | 1,925 | | (755,489) |
| | (6,561,518) | 1,925 | | (6,559,593) |
| Operating income | 2,321,445 | 1,925 | | 2,323,370 |
| Finance income (expenses): | | | | |
| Finance income | 304,034 | | 174,981 | 479,015 |
| Finance costs | (428,116) | (1,925) | (214,713) | (644,754) |
| Foreign exchange variations, net | (43,883) | | 39,732 | (4,151) |
| | (167,965) | (1,925) | | (169,890) |
| Income before income and social contribution taxes | 2,153,480 | | | 2,153,480 |
| Income and social contribution taxes | (704,592) | | | (704,592) |
| Net income for the period | 1,448,888 | | | 1,448,888 |

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(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

| Statements of income: | 2011 | | | |
|--|--------------|----------|------------|--------------|
| | Original | b.1 | b.2 | Reclassified |
| Net operating revenues | 17,085,977 | | | 17,085,977 |
| Costs of services provided and goods sold | (8,542,639) | | | (8,542,639) |
| Gross income | 8,543,338 | | | 8,543,338 |
| Operating revenues (expenses): | | | | |
| Sales | (4,848,512) | | | (4,848,512) |
| General and administrative | (963,394) | | | (963,394) |
| Other operating revenues (expenses), net | (669,093) | 5,310 | | (663,783) |
| | (6,480,999) | 5,310 | | (6,475,689) |
| Operating income | 2,062,339 | 5,310 | | 2,067,649 |
| Finance income (expenses): | | | | |
| Finance income | 310,521 | | 169,908 | 480,429 |
| Finance costs | (448,779) | (5,310) | (271,027) | (725,116) |
| Foreign exchange variations, net | (100,600) | | 101,119 | 519 |
| | (238,858) | (5,310) | | (244,168) |
| Income before income and social contribution taxes | 1,823,481 | | | 1,823,481 |
| Income and social contribution taxes | (545,636) | | | (545,636) |
| Net income for the period | 1,277,845 | | | 1,277,845 |

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Statements of cash flows:

| | Original | b.1 | b.3 | 2012 Reclassified |
|---|------------|----------|---------|----------------------|
| Operating activities | | | | |
| Income before income tax (IR) and social contribution (CSLL) | 2,153,480 | | | 2,153,480 |
| Adjustments to reconcile income to net cash from operating activities: | | | | |
| Depreciation and amortization | 2,688,588 | | | 2,688,588 |
| Residual value of property, plant and equipment and intangible assets written-off | 13,927 | | | 13,927 |
| Interest on asset retirement obligations | 2,617 | | | 2,617 |
| Recognition (reversal) of provision and contingencies | 237,972 | (1,925) | | 236,047 |
| Monetary adjustment of judicial deposits and contingencies | 33,494 | 1,925 | | 35,419 |
| Monetary adjustment of dividends | | | | |
| Interest, monetary and exchange variations and other financial adjustments | 284,880 | | | 284,880 |
| Interest on financial adjustments | (153,026) | | 153,026 | - |
| Provision for doubtful debts (Note 8) | 250,972 | | | 250,972 |
| Stock options (Note 27) | 2,511 | | | 2,511 |
| | 5,515,415 | - | 153,026 | 5,668,441 |
| Decrease (increase) in operating assets | | | | |
| Trade accounts receivable | (541,421) | | | (541,421) |
| Taxes and contributions recoverable | 197,651 | | | 197,651 |
| Inventories | 4,026 | | | 4,026 |
| Prepaid expenses | (68,342) | | | (68,342) |
| Dividends received | | | | |
| Judicial deposits | (181,383) | | | (181,383) |
| Other assets | (24,501) | | | (24,501) |
| Increase (decrease) in operating liabilities | | | | |
| Labor obligations | (12,520) | | | (12,520) |
| Suppliers | 550,594 | | | 550,594 |
| Taxes, fees and contributions | (625,864) | | | (625,864) |
| Authorizations payable | 327,162 | | | 327,162 |

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| | | | |
|---|-------------|---|------------------------|
| Provision and contingencies | (222,000) | | (222,000) |
| Other liabilities | 46,352 | | 46,352 |
| Net cash from operating activities | 4,965,169 | - | 153,026 5,118,195 |
| Investment activities | | | |
| Financial assets stated at fair value through profit or loss | 158,127 | | (153,026) 5,101 |
| Additions to property, plant and equipment and intangible assets | (3,764,726) | | (3,764,726) |
| Asset retirement obligations | 34,273 | | 34,273 |
| Net cash from (used in) investment activities | (3,572,326) | - | (153,026) (3,725,352) |
| Financing activities | | | |
| New borrowings | 1,694,750 | | 1,694,750 |
| Repayment of borrowings | (1,323,243) | | (1,323,243) |
| Reimbursement to shareholders - reverse stock split of TIM Fiber RJ S.A. shares | (549) | | (549) |
| Derivative transactions | (73,593) | | (73,593) |
| Dividends paid | (523,283) | | (523,283) |
| Net cash used in financing activities | (225,918) | - | - (225,918) |
| Increase (decrease) in cash and cash equivalents | 1,166,925 | - | - 1,166,925 |
| Cash and cash equivalents at the beginning of the year | 3,262,855 | | 3,262,855 |
| Cash and cash equivalents at the end of the year | 4,429,780 | | 4,429,780 |

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| | Original | b.1 | b.3 | 2011 Reclassified |
|---|------------|----------|---------|----------------------|
| Operating activities | | | | |
| Income before income tax (IR) and social contribution (CSLL) | 1,823,481 | | | 1,823,481 |
| Adjustments to reconcile income to net cash from operating activities: | | | | |
| Depreciation and amortization | 2,595,968 | | | 2,595,968 |
| Residual value of property, plant and equipment and intangible assets written-off | 20,904 | | | 20,904 |
| Interest on asset retirement obligations | (1,144) | | | (1,144) |
| Recognition (reversal) of provision and contingencies | 175,651 | (5,310) | | 170,341 |
| Monetary adjustment of judicial deposits and contingencies | (13,953) | 5,310 | | (8,643) |
| Interest, monetary and exchange variations and other financial adjustments | 459,363 | | | 459,363 |
| Interest on financial adjustments | (205,407) | | 205,407 | - |
| Provision for doubtful debts (Note 8) | 231,529 | | | 231,529 |
| Stock options (Note 27) | 3,929 | | | 3,929 |
| | 5,090,321 | - | 205,407 | 5,295,728 |
| Decrease (increase) in operating assets | | | | |
| Trade accounts receivable | (782,853) | | | (782,853) |
| Taxes and contributions recoverable | (376,974) | | | (376,974) |
| Inventories | (39,379) | | | (39,379) |
| Prepaid expenses | (11,418) | | | (11,418) |
| Judicial deposits | (185,610) | | | (185,610) |
| Other assets | 33,400 | | | 33,400 |
| Increase (decrease) in operating liabilities | | | | |
| Labor obligations | 11,606 | | | 11,606 |
| Suppliers | 573,532 | | | 573,532 |
| Taxes, fees and contributions | 63,387 | | | 63,387 |
| Authorizations payable | 2,122 | | | 2,122 |
| Provision and contingencies | (218,105) | | | (218,105) |
| Other liabilities | (5,849) | | | (5,849) |

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| | | | | |
|--|-------------|---|------------|-------------|
| Net cash from operating activities | 4,154,180 | - | 205,407 | 4,359,587 |
| Investment activities | | | | |
| Financial assets stated at fair value through profit or loss | 211,151 | | (205,407) | 5,744 |
| Additions to property, plant and equipment and intangible assets | (3,027,113) | | | (3,027,113) |
| Asset retirement obligations | 7,324 | | | 7,324 |
| Cash from the acquisition of TIM Fiber RJ and TIM Fiber SP | 18,973 | | | 18,973 |
| Acquisition of TIM Fiber RJ and TIM Fiber SP | (1,529,588) | | | (1,529,588) |
| Net cash from (used in) investment activities | (4,319,253) | - | (205,407) | (4,524,660) |
| Financing activities | | | | |
| Capital increase | 1,722,222 | | | 1,722,222 |
| Costs from the Issuance of Shares | (47,117) | | | (47,117) |
| Treasury shares | (3,369) | | | (3,369) |
| New borrowings | 892,866 | | | 892,866 |
| Repayment of borrowings | (939,119) | | | (939,119) |
| Derivative transactions | (87,433) | | | (87,433) |
| Dividends paid | (486,354) | | | (486,354) |
| Net cash used in financing activities | 1,051,696 | - | - | 1,051,696 |
| Increase (decrease) in cash and cash equivalents | 886,623 | - | - | 886,623 |
| Cash and cash equivalents at the beginning of the year | 2,376,232 | - | - | 2,376,232 |
| Cash and cash equivalents at the end of the year | 3,262,855 | - | - | 3,262,855 |

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(c) Approval of the financial statements

These financial statements were approved by the Board of Directors of the Company on February 13, 2014.

4 Summary of significant accounting practices

The following accounting practices adopted in preparing these consolidated statements are the International Financial Reporting Standards (IFRS), as issued by IASB.

(a) Functional currency and presentation currency

The presentation currency for the financial statements is the Real (R\$), which is also the functional currency for all the companies consolidated in these financial statements.

Transactions in foreign currency are recognized at the exchange rate on the date of the transaction. Except for assets and liabilities recorded at fair value, monetary items in foreign currency are converted into Reais at the exchange rate on the date of the balance sheet as informed by the Central Bank of Brazil. Exchange gains and losses linked to these items are recorded in the statements of income.

(b) Consolidation procedures

Subsidiaries are all entities (including structured entities) in which the Group holds the control. The Group controls an entity when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The consolidation is interrupted from the date that the Group loses the control over that entity.

The following companies are consolidated in the financial statements:

| Corporate name | Status | Interest | |
|--------------------------------|-------------------|----------|------|
| | | 2013 | 2012 |
| TIM Celular S.A. | Direct subsidiary | 100% | 100% |
| Intelig Telecomunicações Ltda. | Direct subsidiary | 100% | 100% |

We use purchase accounting to record the acquisition of subsidiaries by the Group. The acquisition cost is measured as the fair value of assets offered, equity instruments (e.g., shares) issued and liabilities incurred or assumed by the acquirer at the date when control is exchanged. Identifiable assets acquired, contingencies and liabilities assumed in a business combination are initially measured at their fair value at the acquisition date, irrespective of the proportion of any minority interest. The excess of acquisition cost 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 net assets of the subsidiary acquired, the difference is recognized directly in the statement of income as a receipt.

Transactions between Group companies, as well as balances and unrealized gains and losses in these transactions, are eliminated. Accounting policies of subsidiaries have been adjusted to ensure consistency with the accounting policies adopted by TIM Participações. The base date of the financial information used in the consolidation is the same for all Group companies.

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(c) Segment information

Operating segments are the entity's components that develop business activities from which revenues can be obtained and expenses incurred. Their operating results are regularly reviewed by the entity's chief operating decision maker, in order to make decisions on the allocation of resources to each individual segment and to assess their performance. For an operating segment to exist, it must have separate financial information available.

The Company's chief operating decision maker, responsible for allocating resources and for periodic performance evaluation, is the Executive Board. The Executive Board and the Board of Directors are jointly responsible for making strategic decisions and for managing the Group.

The Group's strategy is to maximize the consolidated results of TIM Participações. This strategy includes optimizing the operations of each group company, in addition to taking advantage of the synergies generated among them. Notwithstanding the various business activities, the decision makers see the Group as a single business segment and do not take into account specific strategies intended for a particular service line. All decisions on strategic, financial, purchasing, investment and fund investment planning are made on a consolidated basis. The aim is to maximize the consolidated result obtained by exploring the SMP, STFC and SCM licenses.

(d) Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term high liquidity investments, with original maturities of up to three months following the investment date, with an insignificant risk of change in value.

(e) Financial assets and liabilities

(e.1) Financial assets

(e.1.1) Classification

The Group classifies its financial assets in the following categories: (1) valued at fair value through profit or loss and (2) loans and receivables. On all dates shown in these financial statements Management determines the classification of its financial assets at initial recognition.

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

A financial asset is classified in this category if it was acquired primarily for sale in the short term. For this reason these assets are usually classified under current assets. However, where these assets are given in guarantee, or other

restrictions exist on their short-term use, they may be classified as non-current assets.

The derivatives held by the Company have also been classified in this category, given their nature. The Company does not have speculative derivatives and does not apply hedge accounting.

(b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments, and are not quoted in an active market. In the financial statements they are classified as "accounts receivable", "cash and cash equivalents" and "other assets".

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(e.1.2) Recognition and measurement

The regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company undertakes to buy or sell the asset. Investments are initially recognized at fair value. The transaction costs incurred in acquiring investments valued at fair value through profit or loss are charged to the income statement as expenses on the transaction date. After initial recognition, changes in the fair value are booked in income for the year as financial income and costs. Such assets are written off when the rights to receive cash flows from the asset have expired or when the Company has transferred substantially all risks and benefits of owning them.

The fair values of investments with publicly quoted prices are based on their purchase price at each base date shown. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These techniques include the analysis of recent transactions with third parties, reference to other instruments that are substantially similar, analysis of discounted cash flow models and option pricing models which make maximum use of information generated by the market and minimum use of possible information generated by Management.

(e.1.3) Offsetting financial instruments

Financial assets and liabilities are reported at their net amount when there is a legal right and an intention to offset them on a net basis, or to realize the asset and liquidate the liability simultaneously.

(e.1.4) Impairment of financial assets

At the end of each reporting period the Company evaluates whether there is objective evidence of the impairment of its financial assets. An asset or group of financial assets is impaired and losses are recognized only if there is objective evidence of impairment. Such evidence would be the result of one or more events occurring after the initial recognition of the assets, and that loss event (or events) would have an impact on the estimated future cash flows of the financial asset (or group of financial assets) which can be reliably estimated.

The criteria which the Company uses to determine whether there is objective evidence of impairment include verification as to real situations involving:

- material financial difficulties of the issuer or borrower;
- a breach of contract, such as default or late payment of interest or principal;
- the Company, for economic or legal reasons relating to the financial difficulty of the borrower, provides a concession to the latter that a lender would not normally consider;

- it is likely that the borrower will declare bankruptcy or other financial reorganization that generates losses for lenders;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there has been a measurable reduction in the estimated future cash flows of a portfolio of financial assets, although the decrease cannot be identified by individual analysis of the individual financial assets in the portfolio. These data include:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on assets in the portfolio.

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The amount of the impairment loss is measured as the difference between the book value of the assets and the new value (fair value less cost to sell / value in use) calculated after allowing for any of the situations mentioned above. Where impairment losses are identified, they are recognized directly in the profit or loss for the year. If, in a subsequent period, the value of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment being recognized (such as, for example, an improvement in the borrower's credit worthiness), the reversal of the impairment loss is also recognized in the consolidated statement of income for the year.

(e.2) Financial liabilities

The main financial liabilities recognized by the Company and its subsidiaries are: supplier accounts payable, unrealized losses on derivative transactions and borrowings and financing. They are classified into the categories below according to the nature of the financial instruments contracted:

Financial liabilities valued at fair value through profit or loss: At each balance sheet date, these liabilities are measured at fair value. Interest, monetary correction, exchange rate variations and variations arising from measurement at fair value, if any, are recognized in profit or loss as incurred, in the lines of financial income or costs. On the dates presented in these financial statements, this category is composed basically of derivative financial instruments.

Financial liabilities measured at amortized cost: are basically non-derivative financial liabilities that are not usually traded before maturity. At the initial recognition, such liabilities are recorded at their fair value. After initial recognition, they are measured using the effective interest method. Under this method, transaction costs impact the initial liability amount, affecting the determination of the effective interest rate. This rate is the rate that exactly discounts all the cash flows from the financial instrument. The appropriation of financial costs, according to the effective interest rate method, is recognized in the income statement under "financial costs". On the dates of presentation of these financial statements, this category includes mainly borrowings and financing and accounts payable to suppliers of the Company.

(f) Accounts receivable

Accounts receivable from users of telecommunications services, from network use (interconnection) and from sales of handsets and accessories are recorded at the price charged at the time of the transaction. The balances of accounts receivable also include services provided and not billed until the balance sheet date. Accounts receivable from clients are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less impairment for accounts receivables ("impairment").

The impairment of accounts receivables is recorded as a reduction in accounts receivable in an amount deemed sufficient to cover possible losses on these receivables, based on the profile of the subscriber portfolio, the period for which the accounts have been overdue, the economic situation and the risks involved in each case.

(g) Inventories

Inventories are stated at average acquisition cost. A provision is recognized to adjust the cost of handsets and accessories to net realizable value (selling price) when this amount is less than the average acquisition cost.

(h) Indirect and direct taxes and contributions recoverable

These are stated at historical cost and, if applicable, adjusted according to the legislation in force.

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(i) Prepaid expenses

These are initially stated at actual amounts disbursed and are appropriated to income according to the accrual method as they are incurred.

(j) Judicial deposits

These are stated at historical cost and adjusted according to the legislation in force.

(k) Property, plant and equipment

Property, plant and equipment are stated at acquisition or construction cost, less accumulated depreciation and the provision for impairment (the latter, only if applicable). Depreciation is calculated on the straight-line method over terms that take into account the expected useful lives of the assets and their residual value (Note 16). The Company recognizes its assets by individual component.

The estimated costs of disassembling towers and equipment on rented properties are capitalized and amortized over the useful life of these assets. The Company recognizes the present value of these costs in property, plant and equipment with a counter-entry to the liability "provision for future asset retirement". Interest incurred on updating the provision is classified as financial costs. The accounting for this obligation is made according to ICPC12 / IFRIC 1.

Gains and losses from disposals are determined by comparing the amounts of these disposals with the carrying values at the time of the transaction and are recognized in "Other operating expenses (revenues), net" in the income statement.

As the Group does not build assets requiring long periods of time for their completion, the Company does not capitalize interest on borrowings and financing.

(l) Intangible assets

Intangible assets are measured at historical cost less accumulated amortization and provision for impairment (if applicable), and reflect: (i) the purchase of licenses and rights to use radio frequency bands and (ii) software in use and/or development. Intangibles also include (i) the purchase of the right to use the infrastructure of other companies, (ii) customer lists, and (iii) goodwill on the purchase of companies.

Amortization charges are calculated on the straight-line method over the estimated useful life of the assets contracted and over the terms of the authorizations. The useful life estimates of intangible assets are reviewed regularly.

Goodwill

Goodwill is the positive difference between the amount paid or payable for an entity acquired and its net assets on the date of acquisition. These assets are the difference between the net fair value of assets and liabilities of the acquired entity. If the purchaser identifies negative goodwill (a negative difference between the amount paid or payable for the entity acquired and its net assets), this amount should be recorded as a gain in the income statement for the period, on the date of acquisition.

The goodwill is not regularly amortized and must be tested annually to identify probable impairment in its value. The accounting record of the goodwill is made at its cost less these losses (if any).

For the purposes of impairment test, the goodwill is allocated to the Cash Generating Units (CGUs).

The allocation is made to the CGUs or groups of CGUs that benefit from the business combination from which the goodwill arose.

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Gains and losses arising from the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Software

The costs associated with maintaining software are recognized as expenses as incurred. Identifiable and unique development costs that are directly attributable to the design and testing of 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 to make it available for use.
- Management plans to complete the software and use it or sell it.
- the software will generate probable future economic benefits, that can be demonstrated.
- technical, financial and other resources are available to conclude development and use or sell the software.
- the expenditure attributable to the software during its development can be measured reliably.

Directly attributable costs, which are capitalized as part of the software product, include costs with employees directly allocated to its development.

Other development expenditures that do not meet these criteria are recognized as expense as incurred.

As stated above, as the Group does not build assets requiring long periods of time for their completion, the Company does not capitalize interest on borrowings and financing.

(m) Impairment of non-financial assets

Goodwill is tested for impairment annually. For other assets, verification of impairment is made whenever events or changes in circumstances indicate that the carrying value of the asset exceeds its recoverable value. The latter is the higher between the fair value of an asset less costs to sell and the value in use. For purposes of impairment assessment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGUs). The discount of expected cash flows is made by taking into account the time value of money and the specific risks related to the asset being analyzed.

The impairment provisions (or part of them) on these assets, except goodwill, may be reversed where it can be shown that the reasons (or part of them) that gave rise to the provisions no longer exist on the financial statements reporting

date.

(n) Provisions

Provisions are recognized in the balance sheet when the Company has a legal obligation or an obligation resulting from a past event, and it is probable that an outflow of funds will be required to settle it.

(o) Accounts payable to suppliers

Accounts payable to suppliers are obligations to pay for goods or services that were purchased in the normal course of business. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Given the short maturity term of these obligations, in practical terms, they are usually recognized at invoice value.

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(p) Employee benefits

Profit sharing

The Company and its subsidiaries record a provision on a monthly basis for the estimated amount of employee profit sharing, with a compensating entry to expense. The provision calculation takes into account the targets disclosed to its employees and approved by the Board of Directors. Such amounts are recorded as personnel expenses and allocated to the income statement accounts in accordance with the employee's original cost center.

Pension plans and other post-employment benefits

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

The liability recognized in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit liability at the balance sheet date, less the fair value of plan assets, with adjustments for unrecognized past service costs, if any. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of defined benefit obligations is determined by discounting estimated future cash outflows, using interest rates consistent with market yields, which are denominated in the currency in which benefits will be paid and which have maturities close to those of the respective pension plan liability.

Past service costs are recognized immediately in income. Gains and losses arising from remeasurements are recorded in the shareholders' equity, as other comprehensive income, as incurred.

Regarding defined contribution plans, the Company makes contributions to public and private pension insurance plans obligatorily, contractually or voluntarily. The defined contribution plans carry no additional obligation for the Company over and above the monthly contributions mentioned, for as long as the employee is a member of staff of the Company or its subsidiaries. If the employee leaves the Company and its subsidiaries within the period required to be entitled to withdraw the contributions made by the sponsors, the amounts to which the employee is no longer entitled, and which may represent a reduction in the future contributions by the Company and its subsidiaries to active employees, are booked as assets.

Stock option

The Company operates share-based compensation plans, which are settled with shares, for which the entity receives the services of certain employees in consideration for equity instruments (options) granted. The Company calculates and records the effects of the stock options in accordance with CPC 10 (R1) (IFRS 2). The fair value of employee

services is recognized as an expense, with a compensating entry to capital reserve, and is determined by reference to the fair value of the options granted. Amounts paid to employees, net of any directly attributable transaction costs, are credited to capital reserve and share issuance premium reserve, if applicable, when options are exercised.

Social contributions payable in connection with the granting of share options are deemed an integral part of the grant itself, and the payment is treated as a transaction settled in cash.

(q) **Income tax and social contribution**

Income tax includes current and deferred income tax and social contribution, and transactions are recognized in the income statement. There are no income tax and social contribution amounts recognized in comprehensive income. Income and social contribution tax credit and debit balances are stated at their net amount only when there is both a right and the intention to offset them upon settlement.

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Current balances

The current income tax and social contribution charges are calculated based on the tax laws enacted or substantially enacted up to the balance sheet date. Management periodically reviews the positions taken by the Company in its income tax returns with respect to tax regulations subject to interpretation.

Brazilian tax legislation allows companies to opt for quarterly or monthly payments of income tax and social contribution. The Company and its subsidiaries opted to pay income tax and social contribution quarterly.

Deferred balances

Deferred income and social contribution taxes are recognized on (1) accumulated income tax and social contribution losses and on (2) temporary differences arising from differences between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax is determined using enacted tax rates (and tax laws), or substantially enacted, up to the balance sheet date. Subsequent changes in tax rates or tax legislation may modify deferred tax credit and debit balances.

Deferred income and social contribution tax credits are recognized only in the event of a profitable track record and/or when the annual forecast prepared by the Company, examined by the Fiscal Council and approved by Management, indicates the likelihood of future realization of those tax credits.

Deferred income and social contribution tax credits and debits are shown in the balance sheet at the net amount, when both a legal right and the intention to offset them exist at the time when current taxes are ascertained, usually in relation to the same legal entity and the same tax authority. Thus deferred tax credits and debits in different entities are in general shown separately, not at their net amount.

(r) Provision and contingencies

This is set up at an amount deemed sufficient to cover losses and risks considered probable, based on analysis by the Company's internal and external legal consultants and by Management. Situations where losses are considered possible are subject to disclosure and those where losses are considered remote are not disclosed.

(s) Leases

Leases where a significant portion of the risks and benefits is retained by the lessor are classified as operating leases and their effects are recognized in the income statement for the year over the lease period.

Leases in which the Company, as lessee, substantially holds the risks and benefits of ownership are classified as financial leases, which are capitalized at the beginning of the lease at the lower of the fair value of the leased item and the present value of the payments provided for in the agreement. Interest related to the lease are recognized in the income statement over the contractual term.

(t) Shareholders' equity

The principal items which affect the Company's shareholders' equity are subject to the following accounting practices:

Capital

It is stated at the amount effectively raised from shareholders, net of the costs directly linked to the issuance process.

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When a Group company purchases the Company's shares, aiming to hold them as treasury shares, the amount paid, including any directly attributable additional costs, is deducted from the Company's shareholders' equity, until the shares are cancelled or reissued. When these shares are reissued subsequently, any amount received, net of additional costs directly attributable to the transaction, is included in shareholders' equity.

Reserves

These are constituted and utilized according to the Corporate Law and the Company's By-laws.

Distribution of dividends

The distribution of minimum compulsory dividends, calculated pursuant to the By-laws, is recognized as a liability at the end of each fiscal year. Any other amount to be distributed as interim dividends or in payment of dividends exceeding the minimum compulsory amount, for example, is provided for only on the date when the additional distribution is approved by the shareholders in a General Meeting.

(u) Revenue recognition

As a rule, revenues are only recognized to the extent that it is probable that the economic benefits from the transactions will flow to the Company and that their values can be measured reliably.

Revenues from services rendered

The principal service revenues are derived from monthly subscribers, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges and interconnection revenue. The balances are recognized as the services are used, net of sales tax and discounts granted on services. These revenues are booked only when the amount of services rendered can be estimated reliably.

Balances are recognized monthly via invoicing, and billable revenues between the billing date and the end of the month (unbilled) are identified, processed and recognized in the month in which the service was rendered. Calculations of unbilled balances from the previous month are reversed out, and unbilled items are calculated again at each current month.

Interconnection traffic and roaming revenues are recorded separately, without offsetting the amounts owed to other telecom operators. (the latter are booked as operating costs).

The minutes not used by customers in the prepaid service system are recorded as deferred revenues and allocated to income when these services are actually used by customers.

Revenues from product sales

Revenues from product sales (telephones, mini-modems, tablets and other equipment) are recognized when the significant risks and benefits of the ownership of such products are transferred to the buyer.

(v) New standards, changes and interpretations of standards not yet in force

All new standards which took effect in 2013 were properly adopted by the Company and did not have material impacts for the Company in their implementation.

The following new standards were issued by the IASB, but are not in force for the year 2013. The early adoption of these standards, although encouraged by IASB, was not allowed in Brazil by the CPC.

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- **IFRIC 21 - "Fees"**. The interpretation clarified when an entity must recognize an obligation to pay fees in accordance with the legislation. The obligation must only be recognized when the event that generates the obligation takes place. This interpretation applies as of January 1, 2014.
- **IFRS 9 - "Financial Instruments"** deals with the classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces the parts of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 requires the classification of financial assets in two categories: those measured at fair value and those measured at amortized cost. The determination is made at the initial recognition. The classification basis depends on the entity's business model and on the contractual characteristics of the financial instruments' cash flow. Regarding financial liabilities, the standard maintains the majority of the requirements set forth in IAS 39. The main change is that, in cases where the fair value option is adopted for financial liabilities, the portion of the change in fair value which is due to the entity's own credit risk is recorded in other comprehensive income, not in the income statement, except when this would result in an accounting mismatch. The Group is assessing the overall impact of IFRS 9, which comes into force on January 1, 2015.

There are no other IFRS rules or IFRIC interpretations, which are not yet in force, that could have a significant impact on the Group.

5 Critical judgment in the application of accounting policies

Accounting estimates and judgments are continuously evaluated. They are based on our historical experience and factors such as expectations of future events considering the circumstances as of the base date of the financial statements.

By definition, the accounting estimates resulting from such assumptions rarely equal the actual outcome. The estimates and assumptions, including significant risk and probable material adjustments in the book values of assets and liabilities for the next fiscal year, are shown below:

(a) Loss on impairment of non-financial assets

Losses from impairment take place when the book value of assets or cash generation units exceeds the respective recoverable value, which is considered as the fair value less selling costs, or the value in use, whichever is greater. The calculation of the fair value less selling costs is based on the information available from sale transactions involving similar assets or market prices, less the additional costs incurred to dispose of such assets. The value in use is based on the discounted cash flow model. Cash flows derive from the Company's business plan for a period equivalent to the useful life of the asset being analyzed. Any reorganization activities to which the Company has not committed itself on the base date on which the financial statements are reported or any material future investments aimed at improving

the asset base of the cash generation unit being tested are excluded for the purposes of the impairment test.

The recoverable value is sensitive to the discount rates used in the discounted cash flow method, as well as with expected cash receivables and the growth rate of revenue and expenses used for extrapolation purposes. Adverse economic conditions may lead to significant changes in these premises.

As at December 31, 2013 and 2012, the main non-financial assets for which this assessment was made are the property, plant and equipment and intangible assets of Intelig and the goodwill in the Company and its subsidiaries (see notes 16 e 17).

(b) *Asset retirement obligation (see note 25)*

The estimated costs of dismantling towers and equipment on rented property are capitalized and amortized over the useful life of these assets. The Company uses estimates to recognize the present value of these costs and their amortization period. These estimates involve projected dismantling costs, the average tenor of the

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lease agreements and the discount rate to determine their present value. This estimate is susceptible to a variety of economic conditions that may not in fact arise when the assets are actually dismantled.

(c) Income tax and social contribution (current and deferred)

Income tax and social contribution (current and deferred) are calculated in accordance with prudent interpretations of the legislation currently in force. This process normally includes complex estimates in order to define the taxable income and temporary differences that are deductible or taxable. In particular, deferred tax assets on income tax and social contribution losses, and temporary differences are recognized to the extent that it is probable that future taxable income will be available to be offset by them. The recoverability of the deferred income tax on tax and social contribution losses and temporary differences takes into account estimates of future taxable income and is based on conservative tax assumptions (see note 12).

(d) Impairment of accounts receivable

The impairment of accounts receivable is shown as a reduction from accounts receivable and is recorded based on the customer portfolio profile, the aging of past due accounts, the economic scenario and the risks involved in each case. The impairment is considered sufficient to cover any losses on receivables (see note 8).

(e) Provision and contingencies

Contingencies are analyzed by the Company's management and (internal and external) legal advisors. The Company's reviews take into account factors such as the hierarchy of laws, case law available, recent court decisions and their relevance in the legal order. Such reviews involve management's judgment (see note 24).

(f) Fair value of derivatives and other financial instruments (see note 40)

The Company has applied the change in IFRS 7 for financial instruments measured at the fair value in the balance sheet, which requires the disclosure of measurements in accordance with the following hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs, other than quoted prices quoted that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

(g) Unbilled revenues

Considering that some billing cut-off dates occur at intermediate dates within the months, at the end of each month there are revenues to be recognized which are not effectively billed to the customers. These unbilled revenues are recorded based on estimates which take into account historical data of usage, number of days since the last billing date, among other factors.

| 6 | Cash and cash equivalents | 2013 | 2012 |
|---|---------------------------|-----------|-----------|
| Cash and banks | | 106,176 | 370,236 |
| Financial investments: | | | |
| CDB/Repurchases with a due date within 90 days | | 5,181,466 | 4,059,544 |
| | | 5,287,642 | 4,429,780 |

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Bank Deposit Certificates ("CDB") and Repurchases are nominative securities issued by banks and sold to the public as a means of raising funds. Such securities can be traded during the contracted period, at any time, without significantly loss of value.

The calculation of the annual average return of the Company's investments, including those not classified as cash and cash equivalents, is 100.8% of the Interbank Deposit Certificate - CDI rate.

7 Financial assets at fair value through profit or loss

| | 2013 | 2012 |
|---------------------|--------|--------|
| CDB/Repurchases | 28,681 | 22,644 |
| Current portion | | (810) |
| Non-current portion | 28,681 | 21,834 |

The CDBs and Repurchases classified as current assets are due between 91 and 365 days. The total investments classified as non-current are restricted for use by virtue of legal actions.

8 Accounts receivable

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| Billed services | 1,015,111 | 1,027,730 |
| Unbilled services | 675,634 | 740,501 |
| Network use | 670,592 | 777,500 |
| Sale of goods | 1,538,664 | 1,511,159 |
| Other accounts receivable | 2,912 | 2,462 |
| | 3,902,913 | 4,059,352 |
| Provision for doubtful debts | (353,925) | (347,176) |
| | 3,548,988 | 3,712,176 |
| Current portion | (3,513,029) | (3,650,871) |
| Non-current portion | 35,959 | 61,305 |

The fair value of accounts receivable equals the book value shown on December 31, 2013 and 2012. The total amount of BNDES borrowings is guaranteed by accounts receivable (see Note 19).

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Variation in the provision for doubtful debts is as follows:

| | 2013 | 2012 |
|-----------------------|------------|------------|
| Initial balance | 347,176 | 320,755 |
| Provision recorded | 240,051 | 250,972 |
| Provision written-off | (233,302) | (224,551) |
| Final balance | 353,925 | 347,176 |

The aging of the accounts receivable is as follows:

| | 2013 | 2012 |
|---------------------------------|-----------|-----------|
| Falling due | 2,904,269 | 3,193,720 |
| Past due for up to 30 days | 182,543 | 52,434 |
| Past due for up to 60 days | 67,278 | 71,866 |
| Past due for up to 90 days | 270,096 | 290,739 |
| Past due for up to 120 days | 133,934 | 160,742 |
| Past due for up to 150 days | 40,080 | 29,540 |
| Past due for more than 150 days | 304,713 | 260,311 |
| | 3,902,913 | 4,059,352 |

9

Inventories

| | 2013 | 2012 |
|---|-----------|-----------|
| Cellular phone sets and tablets | 267,305 | 233,722 |
| Accessories and pre-paid cards | 13,031 | 9,239 |
| TIM chips | 32,033 | 37,839 |
| | 312,369 | 280,800 |
| Provision for adjustment to realizable amount | (15,540) | (11,655) |
| | 296,829 | 269,145 |

The change in provision for adjustment to the realizable amount was as follows:

| | 2013 | 2012 |
|-----------------------|------------|------------|
| Opening balance | 11,655 | 15,891 |
| Provision recorded | 190,044 | 168,457 |
| Provision written-off | (186,159) | (172,693) |
| Closing balance | 15,540 | 11,655 |

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| | | | |
|----|--|------------|------------|
| 10 | Indirect taxes and contributions recoverable | | |
| | | 2013 | 2012 |
| | ICMS | 1,437,991 | 1,113,727 |
| | Others | 11,981 | 7,635 |
| | | 1,449,972 | 1,121,362 |
| | Current portion | (913,215) | (906,101) |
| | Non-current portion | 536,757 | 215,261 |

The ICMS credits refer primarily to the amounts to be offset regarding acquisitions of property, plant and equipment and inventories of the subsidiaries.

| | | | |
|----|--|------------|------------|
| 11 | Direct taxes and contributions recoverable | | |
| | | 2013 | 2012 |
| | Income tax and social contribution | 27,637 | 27,454 |
| | PIS/Cofins | 326,921 | 300,105 |
| | Others | 38,605 | 25,324 |
| | | 393,163 | 352,883 |
| | Current portion | (370,626) | (331,225) |
| | Non-current portion | 22,537 | 21,658 |

The PIS/Cofins amounts recoverable refer primarily to credits involving the purchase of handset inventories.

12 Deferred income tax and social contribution

Deferred income tax and social contribution are calculated using the prevailing rates for each tax. During fiscal years 2013 and 2012, the prevailing rates were 25% for income tax and 9% for social contribution. They also take into account the tax incentives shown in Note 36.

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The amounts shown in the accounts are as follows:

| | 2013 | 2012 |
|---|-------------|-------------|
| Tax losses | 1.320.017 | 1.405.695 |
| Social contribution losses | 488.929 | 519.773 |
| Temporary differences | | |
| Provision for doubtful debts | 117.131 | 116.043 |
| Derivative financial instruments | (68.833) | (37.605) |
| Provision and contingencies | 126.444 | 105.776 |
| Adjustment to present value - 3G license | 18.834 | 20.776 |
| Deferred tax on CPC adjustments | 166.511 | 159.501 |
| Effect of merger of TIM Fiber s | 1.110 | 1.170 |
| FISTEL judicial deposit | - | 72.277 |
| Profit sharing | 18.394 | 11.283 |
| Taxes with suspended enforceability | 12.872 | 12.872 |
| Amortized goodwill - TIM Fibers | (137.612) | (72.915) |
| Business combination - Intelig | (131.325) | (123.891) |
| Others | (2.554) | 17.214 |
| | 1.929.918 | 2.207.969 |
| Unrecognized tax assets (Intelig and TIM Part) | (1.202.967) | (1.152.757) |
| | 726.951 | 1.055.212 |
| Portion of deferred tax assets | 1.064.721 | 1.252.018 |
| Portion of deferred tax liabilities | (337.770) | (196.806) |

TIM Celular

TIM Celular has set up deferred income tax and social contribution assets on its total tax losses, social contribution losses and temporary differences, on the basis of projected future taxable earnings.

Based on these projections, the subsidiary expects to recover the credits as follows:

| | |
|--------------|-----------|
| 2014 | 365,137 |
| 2015 | 185,203 |
| 2016 | 253,614 |
| 2017 | 174,903 |
| 2018 onwards | 85,864 |
| | 1,064,721 |

The estimates for recovery of tax assets were calculated taking into account the financial and business assumptions available at the close of 2013. The time table for the recovery of such credits was approved by the Company's Board of Directors and reviewed by the Audit Committee. It is not necessary to discount the credits to their present values and accordingly no discount rates were applied on this analysis. As mentioned in Note 5, due to the uncertainties inherent in making estimates, these projections may not be confirmed in the future.

Subsidiary TIM Celular used credits related to tax losses carried forward and negative basis of social contribution in the amount of R\$ 173,661 in fiscal year 2013.

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Intelig

Based on estimates of future taxable income and taking into account its history of tax losses and social contribution losses, Intelig believes that it currently does not meet the minimum requisites for recording deferred income tax and social contribution. Thus the company the whole of these tax assets unrecognized. At December 31, 2013, the total unrecognized amount was R\$ 1,129,178 (R\$ 1,084,297 at December 31, 2012), of which R\$ 1,004,503 refers to income tax losses and social contribution losses, while R\$ 124,674 refers to temporary differences. Intelig's liabilities show deferred income tax and social contribution amounting to R\$ 131,330 (R\$ 123,891 at December 31, 2012), from the adoption of deemed cost at the first adoption of IFRS.

TIM Participações S.A.

As it is a holding company, TIM Participações has no activities which could normally be offset by income tax losses, social contribution losses and temporary differences. At December 31, 2013 the unrecognized deferred tax assets amounted to R\$ 73,789 (R\$ 68,460 at December 31, 2012).

13

Prepaid expenses

| | 2013 | 2012 |
|--------------------------|-----------|-----------|
| Rentals and insurance | 64,429 | 56,513 |
| Advertising not released | 157,467 | 139,436 |
| Network swap | 55,159 | 68,038 |
| Others | 26,205 | 10,422 |
| | 303,260 | 274,409 |
| Current portion | (206,354) | (180,371) |
| Non-current portion | 96,906 | 94,038 |

On April 1, 2010, the subsidiary Intelig and the GVT entered into a reciprocal agreement of assignment of fiber optic infrastructure (network swap), in order to expand their respective fields of operation. Given the economic nature of the transaction, the amount was recognized in the (current and non-current) prepaid expenses account against a corresponding entry to other (current and non-current) liabilities (Note 23). At December 31, 2013, the non-current balances were R\$ 8,792 (R\$ 8,742 at December 31, 2012) and the long-term balances were R\$ 46,367 (R\$ 59,296 at December 31, 2012). Both amounts are being appropriated to income in the same proportion over a period of 10 years.

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| | | | |
|----|-------------------|---------|---------|
| 14 | Judicial deposits | | |
| | | 2013 | 2012 |
| | Civil | 233,248 | 179,074 |
| | Labor | 272,262 | 205,481 |
| | Tax (*) | 214,645 | 436,650 |
| | Regulatory | 106 | 107 |
| | | 720,261 | 821,312 |

(*)In April 2008, Federal Law No. 11652 was published related to the payment of the contribution to the 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 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. In March of 2010, 2011, 2012 and 2013 court deposits were made related to the contributions for these periods, in the amounts of R\$ 56,086, R\$ 69,445, R\$ 87,049, R\$ 95,579 respectively , totaling R\$ 308,159. For each of these judicial deposits, a liability was recorded of the same amount under the item "Indirect taxes and contributions payable".

On July 17, 2013, the Company elected to claim the conversion of judicial deposits into income. By judgment rendered on August 1, 2013, the claim of conversion into income was granted.

On September, 2013, these values were write-off and the Company will proceed with the litigation, but making the payments on a regular basis.

| | | | |
|----|-----------------------|---------|---------|
| 15 | Other assets | | |
| | | 2013 | 2012 |
| | Advances to suppliers | 89,609 | 53,163 |
| | Advance to employees | 2,569 | 3,712 |
| | Fiscal incentives | 6,554 | 6,554 |
| | Other rights | 55,632 | 45,313 |
| | | 154,364 | 108,742 |

| | | |
|---------------------|------------|-----------|
| Current portion | (141,140) | (94,702) |
| Non-current portion | 13,224 | 14,040 |

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Property, Plant and Equipment

(a) Movement in property, plant and equipment

| | Balance at 2012 | Additions | Write-offs | Transfers | Balance at 2013 |
|---|---------------------|--------------------|------------------|-------------|---------------------|
| Cost of property, plant and equipment, gross | | | | | |
| Commutation / transmission equipment | 12,296,529 | | (10) | 1.367.770 | 13.664.289 |
| Fiber optic cables | 602,479 | | (43.334) | (60.820) | 498.325 |
| Loaned handsets | 1,571,083 | | (23.705) | 153.204 | 1.700.582 |
| Infrastructure | 3,502,184 | | (111) | 413.596 | 3.915.669 |
| Informatic assets | 1,322,071 | | (1.618) | 93.441 | 1.413.894 |
| General use assets | 451,383 | | | 126.319 | 577.702 |
| Land | 40,505 | | | | 40.505 |
| Construction in progress | 654,428 | 2.155.098 | 135 | (2.093.510) | 716.151 |
| Total property, plant and equipment, gross | 20,440,662 | 2.155.098 | (68.643) | | 22.527.117 |
| Accumulated depreciation | | | | | |
| Commutation/transmission equipment | (8,175,296) | (933.326) | 10 | 41.041 | (9.067.571) |
| Fiber optic cables | (160,310) | (32.945) | 43.334 | 22.888 | (127.033) |
| Loaned handsets | (1,431,679) | (139.566) | 11.746 | (12) | (1.559.511) |
| Infrastructure | (1,690,984) | (286.962) | 46 | (26.484) | (2.004.384) |
| Informatic assets | (1,137,036) | (63.304) | 1.618 | (485) | (1.199.207) |
| General use assets | (278,847) | (46.374) | | (36.948) | (362.169) |
| Total accumulated depreciation | (12,874,152) | (1.502.477) | 56.754 | | (14.319.875) |
| Property, plant and equipment, net | | | | | |
| Commutation / transmission equipment | 4,121,233 | (933.326) | | 1.408.811 | 4.596.718 |
| Fiber optic cables | 442,169 | (32.945) | | (37.932) | 371.292 |
| Loaned handsets | 139,404 | (139.566) | (11.959) | 153.192 | 141.071 |
| Infrastructure | 1,811,200 | (286.962) | (65) | 387.112 | 1.911.285 |
| Informatic assets | 185,035 | (63.304) | | 92.956 | 214.687 |
| General use assets | 172,536 | (46.374) | | 89.371 | 215.533 |
| Land | 40,505 | | | | 40.505 |

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| | | | | | |
|--|-----------|-----------|-----------|-------------|-----------|
| Construction in progress | 654,428 | 2.155.098 | 135 | (2.093.510) | 716.151 |
| Total property, plant and equipment, net | 7,566,510 | 652.621 | (11.889) | | 8.207.242 |

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| | Balance at 2011 | Additions | Write-offs | Transfer | Balance at 2012 |
|---|---------------------|--------------------|------------------|-------------|---------------------|
| Cost of property, plant and equipment, gross | | | | | |
| Commutation/transmission equipment | 10,916,951 | | (25,171) | 1,404,749 | 12,296,529 |
| Fiber optic cable | 667,105 | | | (64,626) | 602,479 |
| Loaned handsets | 1,490,501 | | (34,305) | 114,887 | 1,571,083 |
| Infrastructure | 2,795,386 | | (62) | 706,860 | 3,502,184 |
| Informatic assets | 1,253,177 | | (11,787) | 80,681 | 1,322,071 |
| General use assets | 426,259 | | (18) | 25,142 | 451,383 |
| Land | 40,499 | | | 6 | 40,505 |
| Construction in progress | 643,372 | 2,278,755 | | (2,267,699) | 654,428 |
| Total Property, plant and equipment, gross | 18,233,250 | 2,278,755 | (71,343) | | 20,440,662 |
| Accumulated depreciation | | | | | |
| Commutation/transmission equipment | (7,212,887) | (840,224) | 45,152 | (167,337) | (8,175,296) |
| Fiber optic cable | (139,142) | (212,757) | | 191,589 | (160,310) |
| Loaned handsets | (1,296,457) | (157,074) | 21,851 | 1 | (1,431,679) |
| Infrastructure | (1,510,832) | (167,351) | 39 | (12,840) | (1,690,984) |
| Informatic assets | (1,095,485) | (42,991) | 11,787 | (10,347) | (1,137,036) |
| General use assets | (246,208) | (31,384) | (189) | (1,066) | (278,847) |
| Total accumulated depreciation | (11,501,011) | (1,451,781) | 78,640 | | (12,874,152) |
| Property, plant and equipment, net | | | | | |
| Commutation/transmission equipment | 3,704,064, | (840,224) | 19,981 | 1,237,412 | 4,121,233 |
| Fiber optic cable | 527,963 | (212,757) | | 126,963 | 442,169 |
| Loaned handsets | 194,044 | (157,074) | (12,454) | 114,888 | 139,404 |
| Infrastructure | 1,284,554 | (167,351) | (23) | 694,020 | 1,811,200 |
| Informatic assets | 157,692 | (42,991) | | 70,334 | 185,035 |
| General use assets | 180,051 | (31,384) | (207) | 24,076 | 172,536 |
| Land | 40,499 | | | 6 | 40,505 |
| Construction in progress | 643,372 | 2,278,755 | | (2,267,699) | 654,428 |
| | 6,732,239, | 826,974 | 7,297 | | 7,566,510 |

(b)

Depreciation rates

| | Average annual rate % |
|--------------------------------------|-----------------------------|
| Commutation / transmission equipment | 8 to 14.29 |
| Fiber optic cables | 4 to 10 |
| Loaned handsets | 50 |
| Infrastructure | 4 to 10 |
| Informatic assets | 20 |
| General use assets | 4 to 10 |

In 2013, pursuant to CPC 27 (IAS 16), the Company and its subsidiaries assessed the useful life estimates for their property, plant and equipment, concluding that there was no significant change or alteration to the circumstances on which the estimates had been based that would justify changes to the useful lives currently in use. To determine the useful life of the assets, the Company considers not just the type of the asset, but also the way it is used and the conditions to which the assets is submitted during its operations.

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17 Intangible assets

The amounts of the SMP licenses and radio frequency licenses, as well as software, goodwill and other items, were recorded as follows:

(a) Movement in intangible assets

| | Balance at 2012 | Additions | Write-offs | Transfer | Balance at 2013 |
|---|---------------------|--------------------|------------------|-------------|---------------------|
| Cost of intangible assets, gross | | | | | |
| Software rights | 9,052,830 | | (12,631) | 1,132,467 | 10,172,666 |
| Concession licenses | 4,814,284 | 54,878 | | 98,919 | 4,968,081 |
| Assets and facilities in progress | 35,041 | 1,273,591 | | (1,277,669) | 30,963 |
| Goodwill | 1,527,219 | | | | 1,527,219 |
| List of clients | 95,200 | | | | 95,200 |
| Right to use infrastructure LT Amazonas | | 380,473 | | | 380,473 |
| Other assets | 29,738 | 3,443 | | 46,283 | 79,464 |
| Intangible assets, gross | 15,554,312 | 1,712,385 | (12,631) | | 17,254,066 |
| Accumulated amortization | | | | | |
| Software rights | (6,583,174) | (916,789) | 12,631 | 8,736 | (7,478,596) |
| Concession licenses | (2,941,339) | (231,088) | | | (3,172,427) |
| List of clients | (19,600) | (16,800) | | | (36,400) |
| Right to use infrastructure LT Amazonas | | (6,053) | | | (6,053) |
| Other assets | (21,010) | (6,290) | | | (27,300) |
| Total accumulated amortization | (9,565,123) | (1,265,393) | 12,631 | | (10,817,885) |
| Intangible assets, net | | | | | |
| Software rights | 2,469,656 | (916,789) | | 1,141,203 | 2,694,070 |
| Concession licenses | 1,872,945 | (264,583) | | 90,183 | 1,698,545 |
| Assets and facilities in progress | 35,041 | 1,273,591 | | (1,277,669) | 30,963 |
| Goodwill | 1,527,219 | | | | 1,527,219 |
| List of clients | 75,600 | (16,800) | | | 58,800 |
| Right to use infrastructure LT Amazonas | | 374,420 | | | 374,420 |
| Other assets | 8,728 | (2,847) | | 46,283 | 52,164 |

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| Intangible assets, net | 5,989,189 | 446,992 | | | 6,436,181 |
|-----------------------------------|-----------------------------------|-------------|------------|-------------|--------------------|
| | Balance in 2011 Represented | Additions | Write-offs | Transfer | Balance in 2012 |
| Cost of intangible assets, gross | | | | | |
| Software rights | 7,935,769 | | | 1,117,061 | 9,052,830 |
| Concession licenses | 4,417,342 | 31,862 | | 365,080 | 4,814,284 |
| Assets and facilities in progress | 51,651 | 1,454,109 | | (1,470,719) | 35,041 |
| Goodwill | 1,527,219 | | | | 1,527,219 |
| List of clients | 95,200 | | | | 95,200 |
| Other assets | 41,160 | | | (11,422) | 29,738 |
| Intangible assets, gross | 14,068,341 | 1,485,971 | | | 15,554,312 |
| Accumulated amortization | | | | | |
| Software rights | (5,674,999) | (879,600) | (21,223) | (7,352) | (6,583,174) |
| Concession licenses | (2,606,343) | (334,996) | | | (2,941,339) |
| List of clients | (2,800) | (16,800) | | | (19,600) |
| Other assets | (22,951) | (5,411) | | 7,352 | (21,010) |
| Total accumulated amortization | (8,307,093) | (1,236,807) | (21,223) | | (9,565,123) |
| Intangible assets, net | | | | | |
| Software rights | 2,260,770 | (879,600) | (21,223) | 1,109,709 | 2,469,656 |
| Concession licenses | 1,810,999 | (303,134) | | 365,080 | 1,872,945 |
| Assets and facilities in progress | 51,651 | 1,454,109 | | (1,470,719) | 35,041 |
| Goodwill | 1,527,219 | | | | 1,527,219 |
| List of clients | 92,400 | (16,800) | | | 75,600 |
| Other assets | 18,209 | (5,411) | | (4,070) | 8,728 |
| Total Intangible Assets, net | 5,761,248 | 249,164 | (21,223) | | 5,989,189 |

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| (b) | Amortization rates | Average annual rate - % |
|---------------------|--------------------|-------------------------------|
| Software rights | | 20 |
| Concession licenses | | 5 to 50 |
| Customer list | | 17,65 |
| Other assets | | 20 |

(c) Goodwill from previous years

(c.1) Intelig's acquisition

During the year ended December 31, 2009, as a result of having valued at fair value the identifiable assets acquired and the liabilities assumed from Intelig on the acquisition date, the fair value of net assets acquired amounted to R\$ 529,714. Thus the amount paid for acquiring Intelig, R\$ 739,729 at December 30, 2009, was R\$ 210,015 higher than the fair value of the net assets acquired. This surplus amount was allocated as goodwill and is represented by/based on the Company's expected future earnings. As required for all goodwill, its recoverability is tested annually through an impairment test.

At December 31, 2013, the Company used the value in use method to perform the impairment test, using the following assumptions:

- Intelig's network is fundamental for the Group's business development, allowing and supporting the development of the current and new service offers as well as creating a significant leased lines' cost reduction. To determine the cost savings related to the leased lines, the Company used the market prices of circuit rents, taking into consideration also their locations. The present value of these rents were deducted from the net value of Intelig's permanent assets at December 31, 2013;
- the projection of Intelig's network maintenance and operation costs was based on the Company's expected inflation rate (5.6%) which is consistent with the projections prepared by market institutions;
- the term used for the impairment test was 11 years, consistent with the average useful life of Intelig's network assets; and
- the discount rate applied over the projected cash flows was 12.56% p.a.

As a result of the test, there was no evidence of impairment to be recorded.

(c.2) Goodwill arising from TIM Fiber SP and TIM Fiber RJ acquisitions

TIM Celular acquired, at the end of 2011, Eletropaulo Telecomunicações Ltda. (which, subsequently, had its trade name changed to TIM Fiber SP Ltda. - "TIM Fiber SP") and AES Communications Rio de Janeiro SA (which, subsequently, had its trade name changed to TIM Fiber RJ S.A. - "TIM Fiber RJ"). These companies were SCM providers in the main municipalities of the Greater São Paulo and Greater Rio de Janeiro areas, respectively. The objective of these acquisitions was to allow the Company to expand its operations in high-speed data communications, enabling Grupo TIM Brasil to offer new products to its customers and to reduce the cost of rental of infrastructure, as well as achieve other important synergies related to the fiber optic network.

TIM Fiber SP Ltda. and TIM Fiber RJ. S.A. were merged into TIM Celular S.A. on August 29, 2012.

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The subsidiary TIM Celular recorded the final goodwill allocation related to the acquisition of the companies TIM Fiber SP and TIM Fiber RJ at the amount of R\$1.159.648. One of the items that supports the goodwill related to these transactions is the future profitability of the operation from residential broadband business. The impairment test considered this CGU the value in use methodology. The following assumptions were made:

- growth percentages in the client basis, aligned with the Company's business plans;
- increase in service revenues due to the combination of in speed performance and the option voice x IP;
- projections of operation and maintenance costs considering the growth in client basis, eventual scale gains and inflation effects. The Company's expected inflation rate for the operating expenditures of Fiber (5.26% p.a) is aligned with the projections prepared by the main market institutions;
- considering that the business has an indefinite life, as from the 11th year, it was estimated a perpetuity with a nominal growth in cash flows of 3% p.a.; and
- the discount rate for the future cash flows was 13.03% p.a.

It is important to emphasize that the network synergies from the TIM Fibers (leased line savings, as also occurs with Intelig) also support the future profitability regarding the goodwill from the acquisition of these companies. Bearing in mind that the cash flows relating to residential broadband are already sufficient to support the goodwill registered, the Company did not extend its impairment test to calculate the value in use of the network synergies. Should the need arise, these synergies can also be taken into account in the annual impairment tests.

The result of these impairment tests showed no evidence of the need to provide for losses.

(c.3) Acquisition of minority interests in TIM Sul and TIM Nordeste

In 2005, the Company acquired all the shares of the minority shareholders of TIM Sul and TIM Nordeste Telecomunicações, in exchange for shares issued by TIM Participações, converting these companies to full subsidiaries. At that time, the transaction was recorded at the book value of those shares in the financial statements, with no goodwill being recorded for the difference in market value between the shares traded. For the purposes of the initial adoption of IFRS in 2010, the Company opted to apply the exemption permitted under IFRS 1, recording goodwill of R\$ 157,556, which was ascertained when the financial statements according to IFRS were prepared for the Company's parent company in 2005.

The Company's combined estimates (that includes landline and mobile telephone services, broadband business, leased lines, etc) adjusted to the present value, indicates that there is no need for impairment. The assumptions used for these

estimates were detailed above.

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(d) List of clients

As part of the purchase price allocation process involving the acquisitions of TIM Fiber SP Ltda. and TIM Fiber RJ S.A., contractual rights were identified for the companies acquired to provide future services. These contractual rights were evaluated at their fair value on the date the companies were acquired, and are being amortized in accordance with their estimated useful life on the same date.

(e) Right to use of infrastructure - LT Amazonas

Subsidiary TIM Celular executed agreements for the right to use infrastructure with companies that operate transmission lines in Northern Brazil. Such agreements fall within the scope of IFRIC 4 and are classified as financial leases.

The terms of these agreements are for 20 years, counted as from the date the assets are ready to operate. The contracts for provide monthly payments to the electric power transmission companies, annually restated by IPC-A. The consolidated nominal amount due by TIM Celular is R\$ 652,779. Its present value is R\$ 322,670, and was estimated on the date the agreements were signed with the broadcaster by projecting future payments at an inflation rate of 5.22% and discounting these at 14.44%.

The table below presents the future payments schedule for the agreements in force related to LT Amazonas Project. These amounts represent the estimated disbursements under the agreements executed with the distributors and are shown at their par values. It is important to stress that these balances differ from those shown in the books since, in the case of the latter, the amounts are shown at present value:

| | Nominal amounts |
|---|--------------------|
| Until December, 2014 | 42,121 |
| From January, 2015 until December, 2018 | 130,258 |
| From January, 2019 onwards | 480,400 |
| | 652,779 |

The present value of installments due is R\$ 309,714 for principal and R\$ 12,956 for interest accrued until December 31, 2013. Additionally, the amount of the right of use of LT Amazonas also considers R\$ 70,759 related to investments in property, plant and equipment made by TIM Celular and subsequently donated to the electric power transmission companies. These donations are already included in the contract signed by the parties.

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| 18 | Suppliers | 2013 | 2012 |
|-------------------------------------|-----------|-----------|-----------|
| Local currency | | | |
| Suppliers of materials and services | | 4,753,061 | 3,742,889 |
| Interconnection (a) | | 326,502 | 352,153 |
| Roaming (b) | | 1,658 | 606 |
| Co-billing (c) | | 61,713 | 77,340 |
| | | 5,142,934 | 4,172,988 |
| Foreign currency | | | |
| Suppliers of materials and services | | 94,716 | 64,468 |
| Interconnection (a) | | | 927 |
| Roaming (b) | | 17,687 | 54,738 |
| | | 112,403 | 120,133 |
| Current portion | | 5,255,337 | 4,293,121 |

(a) This refers to the use of the networks of other landline and mobile telephone operators, with calls being initiated from TIM's network and ending 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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| 19 Borrowings and financing | | | | | | |
|-------------------------------------|----------|---------------------------------|---------------|---|------------------|------------------|
| Description | Currency | Charges | Maturity date | Collaterals | 2013 | 2012 |
| BNDES | URTJLP | TJLP at TJLP + 3.62% p.a. | Dec/19 | Secured by TIM Part. and receivables from TIM Celular | 1,934,997 | 1,894,790 |
| BNDES | UMIPCA | UMIPCA + 2.62% p.a. | Jul/17 | Secured by TIM Part. and receivables from TIM Celular | 116,298 | 137,419 |
| BNDES (PSI) | R\$ | 2.50% to 4.50% p.a. | Dec/19 | Secured by TIM Part. and receivables from TIM Celular | 334,889 | 342,079 |
| BNB | R\$ | 10.00% p.a. | Jan/16 | Bank surety and guarantee of TIM Part. | 23,012 | 38,743 |
| Banco do Brasil (CCB) | R\$ | 106.50% of CDI | Mar/15 | | 481,447 | 354,272 |
| Banco BNP Paribas | USD | Libor 6M + 2.53% p.a. | Dec/17 | Security by TIM Part. | 224,395 | 244,723 |
| Banco Europeu de Investimento (BEI) | USD | Libor 6M + 0.57% to 1.324% p.a. | Feb/20 | Bank surety and security by TIM Part.. | 1,115,324 | 836,562 |
| Bank of America (Res. 4131) | USD | Libor 3M + 1.25% p.a. | Sept/13 | | | 244,962 |
| JP Morgan (Res. 4131) | USD | 1.56% p.a. | Sept/13 | | | 205,280 |
| Bank of America (Res. 4131) | USD | Libor 3M + 1.35% p.a. | Sept/16 | | 280,822 | |
| JP Morgan (Res. 4131) | USD | 1.73% p.a. | Sept/15 | | 117,704 | |
| Itaú (CCB) | R\$ | CDI + 0.75% | Mar/13 | | | 91,265 |
| Cisco Capital | USD | 1.80% p.a. | Sept/18 | | 117,768 | |
| Total | | | | | 4,746,656 | 4,390,095 |
| Current | | | | | (966,658) | (951,013) |
| Non-current | | | | | 3,779,998 | 3,439,082 |

The foreign currency loan taken out with Banco BNP Paribas and the financing that TIM Celular has obtained from the BNDES, for the purpose of expanding the mobile telephone network present restrictive clauses requiring compliance with certain financial ratios that are calculated on a half-yearly basis. The subsidiary TIM Celular has been complying with all the required financial ratios.

In December 2012, TIM Celular contracted with BNDES an increase in the total credit limit from R\$ 1,510 million to R\$ 3,674 million. From the total amount of R\$ 2,164 million referring to the increase in the credit limit, R\$ 1,983 million is destined to financing TIM Celular investments, and R\$ 181 million is destined to financing Intelig Telecomunicações investments for the years 2012 and 2013. In December 2012, TIM Celular raised R\$ 1,000 million from BNDES, for a 7-year term, relating to the increase in the credit line contracted in December 2012, of which i) R\$ 867 million at the cost of TJLP + 3,32% and ii) R\$ 133 million referring to the PSI (Investment Support Program) financing line. This program provided for interest rates (2.5% p.a.) that are favorable when compared to facilities available in the market and even when compared to the rates offered by the BNDES itself for other transactions with similar purposes and terms.

In April 2013, Intelig Telecomunicações made the first drawdown with the BNDES, amounting to R\$ 90 million, of which i) R\$ 80 million at a cost of TJLP + 3.32% and ii) R\$ 10 million referring to the PSI (Investment Support Program).

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In May 2013, TIM Celular made a drawdown with the BNDES, amounting to R\$ 200 million and a cost of TJLP + 3.32%.

In June 2013, Intelig Telecomunicações made a drawdown with the BNDES, amounting to R\$ 40 million, for a total term of 7 years, of which i) R\$ 35.5 million at a cost of TJLP + 3.32% and ii) R\$ 4.5 million referring to the PSI (Investment Support Program).

In December 2013, TIM Celular made a new drawdown with the BNDES, amounting to R\$ 82 million, for a total term of 7 years, of which i) R\$ 58 million at a cost of TJLP + 3.32%; ii) R\$ 15 million at a cost of 2.5% p.a. and iii) R\$ 9 million at a cost of TJLP.

The outstanding balances of the credit facilities taken out with the BNDES are R\$ 700 million in the case of TIM Celular, and R\$ 51 million for Intelig Telecomunicações at December 31, 2013.

The transactions related to the PSI credit lines qualify within the scope of IAS 20 - Government Subsidies and Assistance. Therefore, using the effective interest method defined in IAS 39 - Financial Instruments, Recognition and Measurement, the following observations were made: a comparison was made between (i) the total debt amount calculated using the rates set forth in the agreement and (ii) the total debt amount calculated using market rates (fair value). The balance at December 31, 2013, corresponding to the adjustment of the subsidy granted by the BNDES for all the PSI lines is approximately R\$ 67 million. This amount was recorded in the "Other Liabilities" group of accounts under "Government Subsidies" and deferred for the useful life of the asset being financed and appropriated to the result of the "Other Subvention Revenue" group of accounts.

In December 2013, TIM Celular entered into a new financing agreement with the BNDES in the total amount of R\$ 5,700 million, which will be used to finance investments in network and information technology in the years 2014, 2015 and 2016. The total amount contracted with the BNDES is divided as follows: i) R\$ 25,402 million at a cost of TJLP + 2.52% and a total term of 8 years; ii) 2,636 million at a cost of SELIC + 2.52% and a total term of 8 years; iii) R\$ 428 million at a cost of 3.50% p.a. and a total term of 7 years; iv) R\$ 189 million at a cost of TJLP + 1.42% and a total term of 8 years; and v) R\$ 45 million at a cost of TJLP and a total term of 8 years.

In December 2011 and July 2012, the subsidiary TIM Celular entered into financing agreements with the European Investment Bank (EIB) in the amount of EUR100 million each, totaling EUR200 million. Although the line contracted is established in EURO, the contractual terms permit that the Company, at the time of drawing the amounts, choosing the funding currency between the EURO, Brazilian Real or USD. The Company opted to receive the funding in USD. In August 2012, TIM Celular raised R\$ 248 million, equivalent to EUR100 million, which will become due in September 2019. In February 2013, TIM Celular raised R\$ 136 million, equivalent to EUR50 million, under the credit facility granted by the European Investment Bank (BEI) in July 2012, which will become due in February 2020. In the case of both disbursements, concomitantly with the loans, swap transactions were contracted for full protection against

exchange and interest rate variation risks up to the maturity of the debt. The remaining amount of EUR50 million, of the financing agreement entered into with the European Investment Bank (EIB) was canceled in November 2013.

In February 2013, TIM Celular transferred two Bank Credit Certificates in the amount of R\$ 22 million and R\$ 40 million, which were previously contracted with Itaú, to Banco do Brasil, changing the CDI cost from +0.75% per year to 106,50% and extending their maturity from August 2014 to February 2015.

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In March 2013, TIM Celular transferred a Bank Credit Certificate in the amount of R\$ 28 million, which was previously contracted with Itaú, to Banco do Brasil, changing the CDI cost from +0.75% per year to 106.50% and extending its maturity from September 2014 to March 2015.

In September 2013, the subsidiary TIM Celular contracted a loan from Cisco Capital in the amount of R\$ 113 million, or USD50 million, at the cost of 1.80% per year, maturing in September 2018.

In September 2013, the subsidiary TIM Celular fully settled its debt in foreign currency with JP Morgan, in the amount of USD100 million, or R\$ 220 million. At the same time, the Company took a new loan from JP Morgan, in the amount of USD50 million, or R\$ 110 million, at 1.73% per year, maturing in September 2015.

In September 2013, the subsidiary TIM Celular fully settled its debt in foreign currency with the Bank of America, in the amount of USD119.8 million, or R\$ 269 million. At the same time, the Company took a new loan in the same amount, that is, USD119.8 million, or R\$ 275 million, at LIBOR 3M + 1,35% per year, maturing in September 2016.

Regarding the new loans taken from Cisco Capital, JP Morgan, and Bank of America in September 2013, swap transactions were simultaneously contracted in order to hedge the Company against foreign exchange and interest rate risks up to the maturity of the debts.

The subsidiary TIM Celular has swap transactions to fully protect itself against any devaluation of the Brazilian currency vis-à-vis the US Dollar. Nevertheless, this is not subject to "hedge accounting".

The long-term portions of loans and financing at December 31, 2013 mature as follows:

| | |
|--------------|-----------|
| 2015 | 767,483 |
| 2016 | 1,401,438 |
| 2017 | 613,162 |
| 2018 | 320,593 |
| 2019 onwards | 677,322 |
| | 3,779,998 |

Fair value of the loans

In Brazil there is no consolidated long-term debt market with the characteristics of the BNDES and BNB facilities. In addition to the returns on long-term debt, the institutions take into account the social benefits of each project for which financing is granted. For the purpose of our analysis of fair value, given the absence of a similar market and the requirement that the projects address governmental interests, the fair value of the loan is usually taken to be that

shown in the accounting records.

The PSI credit lines, obtained from BNDES, refer to specific programs of this institution and has interest rates lower than those used in the ordinary BNDES operations. As mentioned, these credit lines qualify for IAS 20. Consequently, the BNDES credit lines are recorded at their fair value at the withdraw date and the fair value is calculated considering the CDI rate at the withdraw date. If the fair value was calculated in December 31, 2013, the PSI credit lines would have an amount lower than that presented in the financial statements in R\$9.5 million.

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A further transaction with extremely specific features is the loan from BNP. This is secured by SACE, an Italian insurance company which also operates as a development institution. Given the features of the transaction, we believe that its fair value is equal to that shown on the Company's balance sheet.

Regarding the funds raised with Bank of America, Cisco Capital, and JP Morgan, given the short time frame between raising the funds and the year end, current market conditions do not indicate the existence of any factor that might lead to a different fair value for these transactions to that shown in the accounting records. Regarding the funds raised with Banco do Brasil, besides the short time frame since its signing, the transaction is related to CDI, a post-fixed rate, so the fair value of the transaction is equal to this accounting value.

After applying the evaluation criterion that takes into account the characteristics of similar transactions, the Company identified differences between the fair and book values of the funds raised from the European Investment Bank (EIB). The fair value of the transaction is approximately R\$ 1 million less than the accounting balance.

| | | | |
|----|--|------------|------------|
| 20 | Labor obligations | | |
| | | 2013 | 2012 |
| | Social securities | 39,812 | 35,452 |
| | Salaries and provisions payable | 117,529 | 84,989 |
| | Employees' withholding | 13,215 | 12,842 |
| | | 170,556 | 133,283 |
| 21 | Indirect taxes, fees and contributions payable | | |
| | | 2013 | 2012 |
| | ICMS | 475,430 | 497,489 |
| | ANATEL taxes and fees | 44,141 | 316,709 |
| | ISS | 43,145 | 57,860 |
| | Others | 17,995 | 9,183 |
| | | 580,711 | 881,241 |
| | Current portion | (580,625) | (635,061) |
| | Non-current portion | 86 | 246,180 |

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| 22 | Direct taxes, fees and contributions payable | 2013 | 2012 |
|----|--|------------|------------|
| | | 2013 | 2012 |
| | Income tax and social contribution | 213,153 | 248,041 |
| | PIS/COFINS | 122,093 | 118,265 |
| | Others | 6,525 | 14,503 |
| | | 341,771 | 380,809 |
| | Current portion | (115,103) | (204,917) |
| | Non-current portion | 226,668 | 175,892 |
| 23 | Other liabilities | 2013 | 2012 |
| | | 2013 | 2012 |
| | Pre-paid services to be provided (1) | 394,089 | 339,870 |
| | Reverse split of shares (2) and (5) | 24,156 | 24,192 |
| | Government subventions (3) | 66,770 | 73,480 |
| | Advanced revenues (6) | 40,464 | 44,100 |
| | Network swap (4) | 55,159 | 68,038 |
| | Other liabilities | 15,933 | 15,462 |
| | | 596,571 | 565,142 |
| | Current portion | | |
| | Non-current portion | (431,754) | (372,942) |
| | | 164,817 | 192,200 |

(1) This refers to minutes not used by customers involving pay-as-you-go system services, which are appropriated to income when customers actually avail themselves of these services.

(2) On May 30, 2007, the Extraordinary Shareholders' Meeting of the Company approved the combination of all the shares issued by the Company in the proportion of 1,000 existing shares for each 1 new share of the related type. From June 1, 2007 to July 2, 2007, shareholders adjusted their equity holding in batches with multiples of 1,000

shares, per type, through private negotiation, on the OTC market or on the São Paulo Stock Exchange (BOVESPA), at their free and sole discretion. Therefore recognition of the liability in the amount of R\$ 23,267 corresponds to the amount payable to the shareholders arising from holdings of less than 1,000 shares.

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On September 18, 2007, an auction was held on the São Paulo Stock Exchange - BOVESPA for the sale of 2,285,736 shares (1,185,651 common shares under the ticket TCSL3 and 1,100,085 preferred shares under the ticket TCSL4), representing the fractions resulting from this grouping. The amounts obtained from the sale are at the disposal of the shareholders of these fractions at any time.

(3) Refers to the release of funds to be released under the credit facility from the BNDES Investment Sustainment Program (BNDES PSI), whereby up to December 2013, the amount disbursed totaled R\$ 457,500 (R\$ 428,000 on December 31, 2012). This transaction is classified within the scope of IAS 20 Government Subsidies and Assistance. The subvention granted by the BNDES adjusted to present value resulted in R\$ 91,879 and is being amortized according to the useful life of the asset being financed and appropriated to the "Other (expenses) revenues, net" group (Note 32).

(4) Refers mainly to the transfer of onerous contracts and reciprocal infrastructure of fiber optics (note 13).

(5) On July 18, 2012, at an Extraordinary Shareholders' Meeting, TIM Fiber RJ's (entity merged into TIM Celular) shareholders approved a reverse split of the shares of this subsidiary converting each lot of 50,000 common shares into 1 common share. As a result, TIM Celular became the 100% shareholder of TIM Fiber RJ.

The fractions of shares arising from the reverse split were canceled. Their related amounts are available for reimbursement to the previous shareholders according to their respective share in the capital of TIM Fiber RJ at the time of the reverse split. The right to reimbursement is effective up to three years after the publication of the minutes of the shareholders' meeting that approved the reverse split. At December 31, 2013, this amount totaled R\$ 888.

(6) Refers to the payment of the subscription bonus related to the agreement celebrated between the Company and Itaú Bank.

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Provision and contingencies

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

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

| | 2013 | 2012 |
|----------------|---------|---------|
| Civil (a) | 88,385 | 71,130 |
| Labor (b) | 57,081 | 55,403 |
| Tax (c) | 171,025 | 139,844 |
| Regulatory (d) | 55,584 | 44,910 |
| | 372,075 | 311,287 |

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

| | 2012 | Additions, net of reversals | Payments | Monetary adjustment | 2013 |
|----------------|---------|-----------------------------------|------------|------------------------|---------|
| Civil (a) | 71,130 | 227,149 | (214,305) | 4,411 | 88,385 |
| Labor (b) | 55,403 | 3,730 | (2,116) | 64 | 57,081 |
| Tax (c) | 139,844 | 28,986 | (17,182) | 19,377 | 171,025 |
| Regulatory (d) | 44,910 | 27,309 | (19,888) | 3,253 | 55,584 |
| | 311,287 | 287,174 | (253,491) | 27,105 | 372,075 |

(a) 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 of the entities. 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 lawyers who are hired to deal with such cases. Such assessment is regularly reviewed, and can be changed over the course of the proceedings, in light of new facts or events, such as changes in case law. Below, we present the main law suits for which a provision has been recorded:

(a.1) Consumer lawsuits

The subsidiaries are parties to 15,799 lawsuits (12,275 at December 31, 2012), which refer to claims that have been filed by consumers at the judicial and administrative levels. The aforementioned lawsuits relate to questions regarding the relationship between the subsidiaries and their clients, amounting to R\$ 55,094. Especially, for TIM Celular, alleged wrong collections, contract cancellation, service quality, deficiencies and failures in equipment delivery, and unjustified inclusion in credit report services. In regard to the subject matters underlying the cases against Intelig, worthy of note are questionings regarding improper charging and unjustified inclusion in bad debtors' lists.

(a.2) Class actions

There are 11 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 Rio de Janeiro, involving the impossibility of charging a contract termination penalty in the case of theft of handsets;
- (ii) a lawsuit filed by the municipal consumer protection agency of Chapecó, Santa Catarina against Intelig, which questions non-compliance with Article 61 of Anatel Resolution 85 (retroactive charging);
- (iii) a lawsuit filed by the Public Prosecutor's Office of the State of Minas Gerais challenging the practice of tied sales of phone sets and pre-paid or post-paid chips. This lawsuit claims the payment of collective damages;

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(iv) a lawsuit filed by the Public Prosecutor's Office of the State of Ceará to investigate alleged difficulties regarding termination of agreements. This lawsuit claims payment of collective damages;

(v) a lawsuit filed by the Public Prosecutor's Office of the State of Rio Grande do Norte aiming at investigating TIM's advertising campaign. TIM was sentenced to pay collective damages;

(vi) a lawsuit filed by the Consumer Protection Association (ADECON), regarding the placement of warranty stamps on mobile handsets;

(vii) a lawsuit filed by the Public Prosecutor's Office of the State of Rio Grande do Norte aiming at investigating the amounts charged from pre-paid clients regarding the provision of "Mailbox" and "Follow Me" services;

(viii) a lawsuit filed by the Public Prosecutor's Office of the State of Minas Gerais to check whether phone impulses are properly billed to clients' invoices;

(ix) a lawsuit filed by the Public Prosecutor's Office of the State of São Paulo on the quality of client assistance services provided by the Company;

(x) a lawsuit filed by the Public Prosecutor's Office of the State of Rio Grande do Norte, questioning the quality of the network in the municipality of Upanema;

(xi) a lawsuit filed by the Public Prosecutor's Office of the State of Pernambuco, questioning non-compliance with Article 61, of Anatel Resolution 85 (retroactive charges).

Due to the fact that these lawsuits entail positive and negative obligations and, taking into account the impossibility of accurately quantifying probable future disbursements at the current stage of the legal proceedings, no provisions have been set up by Management regarding the above described contingencies, except for those involving collective moral damages

(a.3) Suit filed by Botafogo Comércio e Importação Ltda.

Refers to a suit filed against former Telp Celular S/A (actual TIM Celular S/A), in 2002, by a former commercial partner, that alleged that TIM has not complied with the celebrated contract and practiced unfair competition, which makes it unfeasible to the partner. At this year, was started the settlement of the judicial decision, already judged, that sentenced TIM for the payment of related damages, loss of profit and moral damages. The calculation presented by TIM, prepared by a specialist, amounts to R\$ 6,307, already monetary restated. The case is still in the settlement phase.

(a.4) Collection suit filed by Mattos & Calumby Lisboa Advogados Associados

The law firm Mattos & Calumby Lisboa Advogados Associados filed a suit for collection of fees of counsel against former TIM Maxitel (current TIM Celular S/A) with the 29th Lower Civil Court of the Judicial District of Rio de Janeiro. The Plaintiff claims to be the creditor of amounts arising from the agreement entered into with TIM (Legal Professional Services Agreement). The claim was ruled to be valid and the case is currently in the enforcement phase. The chances of loss, deemed probable, amount to R\$ 3,691.

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(b) Labor contingencies

These refer both to claims filed by former employees, in relation to matters 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 satisfied by the service provider companies.

Out of the 13,577 labor claims at December 31, 2013 (10,823 at December 31, 2012) filed against the Company and its subsidiaries, most of them relate to claims that involve former employees of service providers. Part of the lawsuits 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 portion of the contingencies that exist 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 some 800 in-house staff and outsourced personnel. At December 31, 2013, the provision for these cases amounts to R\$ 19,371 (R\$ 19,108 at December 31, 2012).

(c) Tax contingencies

The Company and its subsidiaries have received tax assessments in which our external legal counsel consider the risk of loss as probable. Briefly, these assessments refer to one-off operational issues where some documentation requested has not yet been obtained in full or where formal procedures have not been strictly observed.

In the case of federal taxes, a provision for TIM Celular has been made for two specific tax cases referring to CIDE and CPMF that totaled R\$23,958. From these cases, the main amount relates to the case in which TIM intends to have the right not to pay for the CPMF allegedly due to simultaneous purchase and sale transactions of foreign currency, which updated amount provided for is R\$20,834. The other proceedings comprising the amounts provided and included in the most recently published financial statements were settled with the benefits of Law No. 11.941/2009 (Federal Refis program), with the amendments introduced by law No. 12.865/2013.

In the case of state taxes, the total updated amount provisioned is R\$48.606. In this case, we highlight the assessment notice issued by Paraná State related to alleged irregularity in the payment of ICMS levied on telecommunication services provided (pre-paid model) - outgoing telephone card operations- caused by missing documentation. It was indicated the partial provision of the historic value of R\$17,049, that restated reaches R\$22.986.

Tax contingencies arising from the acquisition of Intelig, accrued in its PPA process, amounts to R\$ 97.677.

(d) Regulatory contingencies

Due to an alleged failure to comply with some of the provisions set out in the RSMP (Personal Mobile Service Regulations), the STFC (Switched Landline Telephone Service Regulations) and the quality targets defined under the General Quality Targets Plan (PGMQ) for SMP (PGMQ-SMP) and STFC (PGMQ-STFC), Anatel filed sixteen Procedures for the Determination of Non-Compliance of Obligations (PADO), involving the subsidiaries.

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The Company has exerted its best efforts and presented all arguments at all administrative levels, to avoid sanctions to its subsidiaries. These arguments, which are mostly of a technical and legal nature, may help significantly reduce the initial monetary sanction (fine) charged. The provision made by the Company, in the amount of R\$ 55,584, reflects this assessment.

(e) Contingencies involving possible losses

Civil, labor, tax and regulatory 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 legal advisors. No provisions have been set up for these contingencies, and no materially adverse effects are expected on the quarterly financial statements as shown below:

| | 2013 | 2012 |
|------------|-----------|-----------|
| Civil | 592,638 | 662,503 |
| Labor | 427,788 | 393,703 |
| Tax | 7,787,119 | 6,599,691 |
| Regulatory | 73,614 | 136,688 |
| | 8,881,159 | 7,792,585 |

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

(e.1) Civil

(e.1.1) Consumer actions

The subsidiaries are parties in 77,316 lawsuits (67,880 at December, 31, 2012), that refer to claims that have been filed by consumers at the judicial and administrative levels. The aforementioned lawsuits relate to questions regarding the relationship between the subsidiaries and their clients, amounting to R\$ 276,047.

(e.1.2) Class actions

There are several class actions against subsidiaries where the risk of loss is regarded as being probable. They are summarized as follows: (i) a lawsuit against TIM Celular in the State of Pernambuco, challenging the company's policy of exchanging defective handsets, which is allegedly in disagreement with the manufacturer's warranty terms; (ii) an action filed against TIM Celular, and others, in the State of Rio de Janeiro, by the Office of Legal Aid, requiring that cell phones be exchanged in view of their essential nature; (iii) an action filed against TIM Celular in

the State of Rio Grande do Sul, questioning the policy for exchanging defective handsets and requiring the creation of handset drop-off points for technical assistance in the company's stores in that state (iv) a lawsuit against TIM Celular in the State of Rio Grande do Norte (Natal) questioning the quality of the services provided and the network in that State, as well as the quality of services provided in Florândia, Upanema and Jucurutu; (v) a lawsuit against TIM Celular in the State of Pará, challenging the quality of the service provided by the network in the state and the municipalities of São Felix do Xingu, Parauapebas, Marabá, Xinguara, Portel, Paragominas and Itaituba; (vi) lawsuits against TIM Celular in the State of Maranhão, challenging the quality of the service provided by the network in the following municipalities: Balsas, Grajaú, Coelho Neto, Vitorino Freire, São Luis, Magalhães de Almeida, Governador Eugênio Barros, Carolina, Buriti, São Raimundo das Mangabeiras, Paraibano, Governador Nunes Freire, Santo Antonio dos Lopes, Santa Luzia, Igarapé Grande, Pedreiras, Olho D'Água das Cunhas, Presidente Dutra, Várzea Grande and Santa Inês, in addition to a Public Civil Suit questioning the quality of the service in the entire State of Maranhão; (vii) lawsuits against TIM Celular in the State of Ceará, challenging the quality of the services provided and the network in Fortaleza, Iguatu, Monsenhor Tabosa, Ibiapina, Icapuí, Sobral and Icó, in addition to two Public Civil Suits questioning the quality of the service in the entire State of Ceará; (viii)

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lawsuits against TIM Celular in the State of Piauí, challenging the quality of the services provided and the network in that state; (ix) lawsuits against TIM Celular in the State of Rondônia, challenging the quality of the services provided and of the network in the municipality of Machadinho do Oeste (Vale do Anari) and Rolim de Moura; (x) lawsuits against TIM Celular in the State of Amazonas, challenging the quality of the services provided and of the network in that State, in Manaus, Tabatinga, Humaitá and Tefé; (xi) lawsuits against TIM Celular in the State of Mato Grosso, challenging the quality of the services provided and of the network in Novo São Joaquim, Campinópolis and Nova Xavantina, Nova Maringá and Santo Antonio do Leverger; (xii) a lawsuit filed against TIM Celular in the State of Pernambuco, questioning the quality of the service provided and the network on that state, in addition to lawsuits filed in the municipalities of Araripina, Ouricuri, Tabira, Exu and Petrolândia; (xiii) lawsuits filed against TIM Celular in the State of Alagoas, questioning the quality of the services and the network in that State, especially in the municipalities of Arapiraca, in addition to one Public Civil Suit questioning the quality of the service in the entire State of Alagoas; (xiv) a lawsuit filed against TIM Celular and other operators in the State of São Paulo, questioning the service and network quality in Rio Claro (Ajapi District), as well as a lawsuit filed against TIM Celular questioning the quality of data services provided by TIM in São Paulo; (xv) a lawsuit filed against TIM Celular in the State of Paraíba, questioning the quality of the services and the network in the municipalities of Pombal and Monteiro; (xvi) a lawsuit filed against TIM Celular in the State of Minas Gerais questioning the quality of the services and the network in that State and two specific lawsuits questioning the quality of network in Uberlândia and another lawsuit in Juiz de Fora; (xvii) a lawsuit filed against TIM Celular and other operators in the State of Rio Grande do Sul requesting an expert investigation to verify the quality of service and network in such State; (xviii) a lawsuit filed against TIM Celular in the State of Santa Catarina questioning the quality of service and network in such State and the existence of relationship sectors in certain locations, in addition to the lawsuit filed to challenge the quality of services in the Municipality of Ipumirim; (xix) a lawsuit filed against TIM Celular in the State of Paraná, questioning the quality of services provided and of the network in that state; (xx) lawsuits filed against TIM Celular in the State of Pará (sic), questioning the quality of services provided and of the network in that State, in addition to lawsuits filed in the cities of Marabá, São Félix do Xingu, Xinguara, Portel, Itaituba and Novo Progresso; (xxi) a lawsuit filed against TIM Celular, in the State of Tocantins, questioning the quality of services provided and of the network in the municipality of Itaguatins; (xxii) a lawsuit filed against TIM Celular, challenging the long-distance charges levied on calls made in the municipality of Bertoga - State of São Paulo and in the surrounding region; (xxiii) a lawsuit against TIM Celular in the State of Rio de Janeiro, challenging the sending of SMS without the consumer's prior consent, in addition to one

Public Civil Suit questioning the quality of the service in the entire State of Rio de Janeiro; (xxiv) a lawsuit filed against TIM Celular in the State of Rio de Janeiro challenging the charging of amounts arising from contractual penalty for loss and theft of devices; (xxv) a lawsuit filed by the State Prosecution Office against TIM Celular challenging the sale of 3G broadband service and its publicity in the State of São Paulo; (xxvi) a lawsuit against TIM Celular in the State of Espírito Santo questioning the quality of the service and the network in Várzea Alegre; (xxvii) lawsuits against TIM Celular in the State of Bahia, questioning the quality of the service and the network in Itiruçu, Gentio de Ouro, Licínio de Almeida, Ipujiara and Vitória da Conquista; and (xxviii) a lawsuit filed by the Federal

Prosecutor's Office against TIM Celular, questioning sales of 3G broadband services in the State and advertising in the Federal District; (xxix) two lawsuits filed against TIM Celular in the State of Amapá, challenging the quality of services provided and the State's network; (xxx) a lawsuit filed against TIM Celular and other operators in the State of Espírito Santo challenging the quality of services provided and the network that serves the area of Santa Teresa; and a lawsuit filed against TIM Celular in the State of Goiás, questioning the quality of the services rendered and of the network in the State.

Regarding class actions involving Intelig, the risk of loss of which is considered possible, the following is worth being emphasized: (i) public civil suit filed by the State of Rio de Janeiro involving publicity in the company's building; (ii) public civil suits involving the charging of fees in bordering areas and filed by the Prosecution Office of the States of Paraná and Rio de Janeiro; and (iii) public civil suits involving the charging of fees after the regulated term provided for by ANATEL in Chapecó, Cascavel, Uberlândia, Fortaleza, DF, São Paulo and Recife; and (iv) a civil public action filed by the Public Prosecutor of the State of Minas Gerais, questioning the alleged incorrect charging of users.

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(e.1.3) Other actions and proceedings

TIM is a defendant, together with other telecommunications companies, in a 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 provides for 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 1st Regional Appellate Court. TIM contested this decision by means of a special appeal which was partially upheld, obligating GVT to pay TIM the amount fixed by ANATEL in the arbitration process in course at the agency to which GVT and VIVO are parties. However, at a new judgment held in November 2012, the Superior Court of Justice attributes the infringing effects to the Motion for Clarification filed by GVT, in order to deny TIM's Special Appeal and, therefore, uphold the preliminary injunction originally granted. In September 30, 2011, the judge in this case confirmed the request for suspension of the act formulated by GVT until the work by ANATEL of ascertaining the VU-M reference amounts is concluded. GVT entered into agreements with all parts involved, except TIM, approved by the courts. On June 13, 2013, a hearing was held in an attempt at reconciliation, which proved fruitless. The lawsuit will regularly proceed to the evidentiary stage.

In addition to the lawsuit, GVT has also filed a representation before the SDE (Secretariat of Economic Law), against TIM, Vivo, Claro and Oi, 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. The SDE ruled against the alleged practice of Price Squeeze and forwarded the proceeding to the Administrative Council of Economic Defense ("CADE") for judgment, also voting for the dismissal of the allegation of uniform conduct ("cartel"). The CADE Prosecutor's Office, after analyzing the procedure for more than one year, suggested, in March 2013, that the case against all the Respondents should be dropped, having found no evidence that would indicate any antitrust practices. The Prosecutor's Office also suggested that the Board should recommend that Anatel promote measures directed toward reducing the interconnection tariff. In the court session held on September 11, 2013, CADE unanimously decided to dismiss the case, as well as (i) the Administrative Appeal filed by GVT against the ANATEL decision; (ii) the Preliminary Investigation arising thereof; and (iii) Provisional Remedy filed by GVT, pursuant to the voting of Council Member Ana Frazão. Despite not being admitted as a third party interested in the lawsuit trialed by CADE, Hoje Sistemas de Informática Ltda. filed, on September 27, 2013, a motion for clarification, which has not been heard by the plenary session of CADE, on November 6, 2013, pursuant to the voting of the Reporting Council Member.

TIM is a defendant in the indemnity lawsuit filed by Secit Brasil Ltda, alleging that TIM is in breach of contract. This company was hired by TIM to carry out infrastructure work on the installation of ERBs in area 4 (Minas Gerais). TIM

has already filed its defense and the case in the initial phase, awaiting the commencement of the evidence collection phase. No lower level judgment has been handed down. The amount allocated to this case is R\$ 9,758.

TIM is a defendant in the collection lawsuit filed by TVM Comércio e Representações Ltda. (TVM) against TIM Celular and against DM5 Comércio e Representação Ltda. (DM5) in the amount of R\$ 4,019, in which TVM seeks an award against TIM and DM5, jointly and severally, for payment of the adjusted cost of the acquisition by DM5 from TVM of business outlets which, subsequently, were transferred to TIM Celular S/A. TVM argues that a conveyance of the business outlets to TIM took place and, therefore, that TIM should be responsible for paying the debt of DM5. On February 15, 2013, the lawsuit was judged in the first instance, and TIM and DM5 were jointly and severally condemned to pay the amount of R\$ 4,019, plus interest and monetary adjustment since the filing of the lawsuit. On March 1, 2013, TIM filed an Appeal, which was partially accepted on November 28, 2013, to exclude sentencing to payment of late payment fine, only. The case is currently pending judgment of the motion for clarification regarding the appellate decision.

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TIM has filed a collection lawsuit against DM Link Representação Comercial Ltda., Davi Marcelino Vieira, Marcos Marcelino Vieira and Monica Ferreira Odria Vieira, to have them sentenced to pay R\$ 3,511 plus monetary restatement and interest, and a lawsuit against DM5 Comércio e Representação Ltda., so that it is sentenced to pay R\$ 5,004. DM5 and DM Link were TIM sales outlets, but because of the companies' debts, the agreements were terminated. In order to pay down the debt, DM5 offered stores in payment of the debt of DM Link, amounting to R\$ 5,861. DM5, in turn, filed a counterclaim, requesting that the transfer of the stores be declared null and their return to DM5, that TIM be sentenced to pay the dividends it would have received while the stores were in its possession and that if the return of the stores was impossible, that TIM be sentenced to pay indemnification corresponding to the "market value" of the stores, this value to be ascertained by expert investigation. A conciliation hearing has been designated. The conciliation hearing was held on October 23, 2013, and was unsuccessful. No lower court decision has been handed down.

TIM is a defendant in the lawsuit brought by the company INTEGRAÇÃO Consultoria e Serviços Telemáticos Ltda. (recharge distributor), 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 stay the execution and, in the lawsuit, requests (i) indemnification corresponding to notice of termination of 180 days for each reduction of the area operated in the agreement; (ii) indemnification for the goodwill lost on account of the defendant having terminated the agreement; (iii) recognition of the illegality of the goals system; (iv) declaration of the non-enforceability of the invoices due in May 2008; (v) declaration of nullity of the instrument of confession of debt; and (vi) declaration of nullity of the mortgages constituted on behalf of the defendant. Finally, the injunction requests non-inclusion in lists of bad debtors. The injunction was granted by the court. It should be stressed that TIM filed an execution action against the aforementioned company with the 4th Lower Court of Florianópolis, for the sum of R\$ 3,957. An appeal was filed against execution, requesting effect of "supersedeas", by Integração Consultoria, which was rejected by the judge. This led to the filing of an interlocutory appeal, with the effect of supersedeas having been granted. TIM has made a declaration to the effect that the assets listed by the execution debtor are insufficient to secure the execution. The execution against TIM is currently suspended due to the fact that an Interlocutory Appeal has been filed, whose staying effect has been granted, and is pending judgment at the court: in other words, until otherwise decided by the High Court there will be no order from the original court for a lien on assets in the fixed amount execution action. No decision has yet been handed down regarding the ordinary action, which is pending the evidentiary hearing scheduled for May 15, 2014.

TIM is a defendant in a declaratory lawsuit filed by CONSETREL Cadastros, Serviços e Representações Ltda. with the 2nd Civil Court of the Jurisdiction of Lavras, State of Minas Gerais, requesting the amount of R\$ 3,203. This company was a commercial partner of TIM and alleges that the termination of the agreement was "unfair, unjustified and irregular", since "the plaintiff was at no time in breach of contract." In addition to its defense, TIM also alleged jurisdictional defense (so that the clause concerning the choice of jurisdiction contemplated in the agreement was duly observed). This defense was not admitted, after which TIM filed an interlocutory appeal. The Court granted this Appeal. The case records were remitted to the Judicial District of the Capital City of the State of Minas Gerais, and no lower court decision has yet been handed down.

In December 2010, TIM filed with the 15th Federal Court of the Federal District an action of ordinary proceeding against ANATEL requesting interlocutory relief for the purpose of acknowledgement and annulment of PADO N. 53500.025648/2005 and of Act N. 62.985/07. The PADO applied by ANATEL prevented the company from participating in the public bid for the "H" Band. Interlocutory relief was not granted by the judge, which enabled TIM to make a court deposit of R\$ 3,595 in order to suspend the debt and enable the company to participate in the bidding process. The judge ruled for the suspension of the charge until a decision is reached. TIM has already filed a reply and petition, submitting evidence that the court deposit has been supplemented. The lawsuit was ruled partially valid, so as to annul default charges before the date of maturity of the fine. TIM filed an Appeal, and ANATEL also appealed the unfavorable decision rendered against it. Currently, the case records are pending judgment at the Federal Regional Court of the 1st Region.

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In October 2012, TIM filed for the annulment of PADO against ANATEL regarding the debt deriving from the 2% charge on interconnection revenues for renewal of the right to use radiofrequencies associated with the provision of personal mobile services in the State of Paraná (except for the municipalities of Londrina and Tamarana); the State of Pernambuco; in the municipalities of Pelotas, Morro Redondo, Capão do Leão e Turuçu, in the State of Rio Grande do Sul; and in the State of Piauí, in the amount of R\$ 11,519. Our request to suspend the payment of the debit was accepted against the presentation of a letter of guarantee. No lower court decision has yet been handed down.

In addition to the lawsuits mentioned above, there are seven notices of violation filed by the Consumer Protection Foundation - Procon/SP against TIM Celular based on: (I) failure to comply with the rules of Decree No. 6,523/08, dealing with the Customer Call Center (SAC); (II) alleged abusive nature of the clauses contained in the Data Package Agreement; (III) absence of coverage for TIM Web and TIM Home services in certain locations; (IV) failure to comply with a request for cancellation of an agreement; (V) charging consumers for handsets not received; (VI) alleged failure to comply with State Law No. 13.220/08, involving the "No Call" register (prohibiting telemarketing); (VII) a newspaper article alleging that telephone companies were restricting internet use on tablets to pay-as-you-go subscribers. The fines imposed by the Procon/SP vary from R\$ 3,192 to R\$ 6,487. TIM has filed its administrative defense in all cases, but at the appeal level, several fines were upheld and/or are awaiting judgment.

In those cases where the administrative discussion phase has run its course, lawsuits were filed for annulment of those fines. In the case of "prohibition on blocking of telemarketing", although TIM has obtained an injunction suspending the effects of the administrative decision, the São Paulo Appellate Court applied supersedeas to the interlocutory appeal of the PROCON, reestablishing the efficacy of the sentence. There is still no decision at the judicial level for any of the cases mentioned.

TIM received twelve assessment notices from the Center for Consumer Protection and Defense - PROCON Londrina/PR, on the grounds of complaints from consumers relating to alleged (I) incorrect discounts in credit reloading; (II) discounts referring to the "Additional Super Discount Offer;" "12 Months' Super Discount Offer;" and "Superdiscount TIM postpaid" plans; (III) cancellation of service and incorrect collection; (IV) onerous offer; (V) obstruction in cancellation of services agreement; (VI) incorrect registration in credit protection database and misinformation provided to consumer; (VII) portability problems; (VIII) misleading advertising; (IX) cancellation problems; (X) receipt of incorrect invoices and unilateral amendment of the plan; (XI) blocking of handset; (XII) wrong offer of handset, all of them providing for a monetary fine of R\$ 7,133, each. TIM filed an administrative appeal in all cases above, which is pending judgment.

In addition to the demands above, TIM Celular S/A, Intelig Telecomunicações Ltda., Oi SA/A, TNL PCS S/A and 14 Brasil Telecom Móvel S/A filed an innominate provisional remedy against ANATEL, discussing the pro rata monetary restatement applied to the price proposal established in the call notice for use of 4G frequencies in a period less than the legal minimum (twelve months). The amount in dispute totals R\$ 24,586. An injunction was granted on the basis of an interlocutory appeal, so as to authorize the deposit of the amount in dispute, referring to the monetary

restatement calculation made by ANATEL upon payment of the amount offered by the plaintiffs in their price proposals regarding the radiofrequencies granted to them. An amendment to the complaint was requested aiming to convert the provisional proceeding in an ordinary proceeding and ANATEL is expected to be served a process again to challenge the ordinary proceeding. A lower court decision is still pending,

In the fourth quarter of 2013, other events were recorded regarding the assessed notice issued by PROCON in the State of Goiás regarding alleged lack of quality in the provision of services given non-availability of network coverage in Goiânia on May 21, 2013. After the administrative defense was filed, the autonomous government agency issued a fine in the amount of R\$5,434. We filed an administrative appeal with the State Office of Prison Administration, which was granted and annulled the lower court decision, determining that the case records be remitted to the Superintendence for Protection of Consumer Rights so that a new decision could be rendered. Given the status of the proceeding, it is currently not possible to determine the amount in dispute.

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Among the lawsuits of Intelig classified as a possible risk, worthy of note is the collection lawsuit filed by Orolix Desenvolvimento de Software Ltda with the 36th Lower Court of the Rio de Janeiro Jurisdiction, requesting an amount of R\$ 5,433 based on alleged breach of contract. Intelig has submitted its defense, and the case records are currently under expert investigation. In February 2012, Orolix filed a reply, but there is still no decision from the lower court.

(e.2) Labor claims

(e.2.1) Labor claims

A significant percentage of the existing contingencies relate to 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 some 800 employees, including in-house staff and outsourced personnel.

Case record 01102-2006-024-03-00-0 refers to a public civil action filed by the Labor Public Prosecutor's Office of the 3rd Region, in the State 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, in which the first degree acting judge ruled the Labor Public Prosecutor's Office claims as partially valid, recognizing irregular outsourcing and collective moral damages. An appeal was filed against this decision, and was dismissed on July 13, 2009. Prior to filing the aforementioned appeal, TIM Celular filed a writ of mandamus to prevent 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 review was filed, which is pending 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 filed an Ordinary Appeal with the Regional Labor Court (TRT) of the 10th Region in March/2010, the decision of the 1st instance being maintained, namely that the intention of the Labor Public Prosecutor's Office is without foundation. Dissatisfied with the decision, the Public Prosecutor's Office filed for a review, which is still waiting to be heard by the TST.

A group of actions have been filed in the State of Paraná, involving claims for damages in connection with contractual provisions stamped in the employees' work cards. 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.

It should also be pointed out that there is a group of labor claims, particularly in São Paulo and Rio de Janeiro, from former Gazeta Mercantil and Jornal do Brasil 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 and Jornal do Brasil, without any employment ties with Holdco or TIM Participações. It should be stressed that prior to the merger with TIM Participações, Holdco belonged to the Docas economic group, of which Gazeta Mercantil and Jornal do Brasil is part.

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(e.2.2) Social Security

In São Paulo TIM Celular received a Debit Assessment Notice referring to alleged irregularity in the payment of social security contributions in connection with the payment of profit-sharing in the amount of R\$ 4,713. The subsidiary filed its administrative defense, but on September 16, 2009, a decision was rendered which upheld the assessment notice. On October 5, 2009, an administrative appeal was filed, but the assessment was upheld. On account of the final decision on the assessment at the administrative level, an action was filed for reversal of the assessment.

In May 2006, TIM Celular was assessed under tax assessment notice No. 35611926-2 for social security contributions that were allegedly due in connection with the following: (i) hiring bonus; (ii) non-adjusted bonus; (iii) payments to self-employed persons; and (iv) sales incentives. The company filed an administrative defense but this did not reverse the tax assessment (decision - assessment). In an attempt to get this decision reversed, TIM Celular filed an appeal with the Ministry of Finance's Taxpayers' Council, which is now pending judgment.

Intelig in Rio de Janeiro received Tax Assessments for Entry of Debits regarding alleged irregularity in the payment of social security contributions levied on the following cases: (i) profit sharing; (ii) retention of 11% on services agreements; (iii) failure to deduct and pay on management's fees and (iv) failure to properly fill out the GFIP. Administrative defense was presented, with an unfavorable outcome (decision-notification) for undoing the entry. In order to have this decision changed, Intelig filed an appeal with the Taxpayers Commission of the Ministry of Finance, which upheld the assessment. On account of the final decision on the assessment at the administrative level, involving the retention of 11% in services agreements, an action was filed to have the assessment reversed.

(e.3) Tax claims

(e.3.1) IR and CSLL

On October 30, 2006, TIM Celular received tax assessment notices which initially amounted to 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 part of 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. Thus the final amount of the infraction notice was set at R\$ 258,144. TIM Celular filed an appeal, which in June 2013 was forwarded to the 2nd Ordinary Panel of the 4th Chamber of the 1st Section of the Administrative Tax Appeals Council (CARF). We are currently waiting for the trial to be held.

These tax assessment notices make up the same administrative proceeding, and include demands in connection with the alleged failure to pay income and social contribution taxes, together with a separate unrelated fine for various

reasons. Most of these relate to the amortization of goodwill resulting from the privatization auction of the Telebrás System and related tax deductions. Under Law No. 9532/97, Article 7, the proceeds of goodwill amortization can be included in the actual profit of a subsidiary created as a result of a merger, spin-off or consolidation, whereby one company has a stake in the other, with said stake being acquired based on the future profitability of the investee. It should be stressed that this is a normal market transaction and is in accordance with CVM (Brazilian Securities Commission) Instruction No. 319/99.

The Tax Information Report mentioned did indeed lead to part of the infractions contained in the assessment notice, which discussed the timely adaptation of the deductibility of the goodwill for 159 specific federal tax offsetting proceedings amounting to R\$ 84,742, these arising from set-offs involving this recognition. In September 2009 and April 2011, a decision was rendered partially favorable to TIM Celular for some 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, part at the administrative level totaling R\$ 67,404 and part at the judicial level totaling R\$ 16,267.

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In December 2010, TIM Celular received an infraction notice served by the Federal Revenue Department in the State of São Paulo in the amount of R\$ 164,102 involving (i) the alleged non-addition to the income and social contribution taxes of the amount referring to the amortization of the goodwill from the acquisition of shares of Tele Nordeste Celular Participações; (ii) exclusion of the amortized goodwill; (iii) deduction of corporate income tax by way of fiscal incentive for reduction of tax and allegedly non-rebatable additional amounts on account of the alleged failure to formalize with the Federal Revenue Service the incentive granted by the SUDENE. This tax assessment notice was immediately challenged by the subsidiary. In June 2013, the 2nd Panel of the 1st Chamber of the CARF partially ruled in favor of the voluntary appeal filed by the subsidiary. We are currently awaiting formalization of the decision in order to file any appeals to the Superior Chamber of the CARF.

In March 2011, TIM Celular, as successor to TIM Nordeste (the new name of Maxitel following the incorporation of TIM Nordeste Telecomunicações) received a tax assessment notice filed by the Federal Revenue Department of the State of Pernambuco, amounting to R\$ 1,265,346 concerning income and social contribution taxes referring to: (i) deduction of goodwill amortization expenses; (ii) exclusion of the reversal of the goodwill from the former BITEL; (iii) improper set-off of tax losses and negative bases by disregarding the incorporation of TIM Nordeste Telecomunicações by Maxitel; (iv) improper use of the (Sudene) income tax reduction tax benefit in 2006, for alleged failure to formalize the benefit with the Federal Revenue Department; (v) deductions of WHT without proof of payment; (vi) deduction of estimates without proof of payment; (vii) one-off penalty for underpayment of estimates; (viii) regulatory penalty for omitting information and failure to produce digital files and (ix) supplementary entry to the administrative proceeding mentioned in the above paragraph. This notice was immediately contested by the subsidiary.

The first judgment at the administrative level was confirmed, and the assessment notice was fully ratified. Additionally, the subsidiary, on a timely basis, submitted its appeal to the CARF, and, based on case law related to companies having similar causes, where such companies were rendered a favorable judgment, TIM Celular, however, considering all existing precedents, maintains its estimate of possible loss. In May 2013, the voluntary appeal filed by the company was forwarded to the 3rd Panel of the 1st Chamber of the CARF, and is currently waiting to go to court.

(e.3.2)

IRRF, CSLL and CIDE

In February 2003, TIM Celular received a tax assessment notice drawn up by the Federal Revenue Department on the grounds of non-homologation of offsetting PIS and COFINS debts against Negative Income Tax balance ascertained in DIPJ/2003 (civil year 2002), in the total amount of R\$ 72,499. In May 2013, the risk classification was amended on the recommendation of the sponsors of the lawsuit, given the evolution of case law in this respect. For this reason the amount of R\$ 11,765 was classified, in the past, as probable risk, with the remaining R\$ 60,733 as possible risk. We are awaiting the second administrative instance judgment.

In December 2006, the subsidiary Intelig received notification from the Federal Revenue Department amounting to R\$ 49,652, arising from the alleged failure to pay IRRF and CIDE on remittances abroad by way of remuneration for outbound traffic. This notification was being challenged at the administrative level. After judgment, in May 2012, the notification was upheld on the grounds that the Company opted for discussion at the judicial level. In October 2012, an administrative request for write-off of amounts was filed due to the final favorable decision on the writ of mandamus. In October 2012, the Federal Revenue Office pronounced itself regarding the exclusion of IRRF in the amount of R\$ 30,098, maintaining the payment only of CIDE in the historical amount of R\$ 19,554. Against this decision, a hierarchical appeal was filed in November 2012; however, it was denied in December of the same year. In February 2013, a lawsuit was filed on behalf of INTELIG, with the purpose of annulling the CIDE tax credit arising from remittances abroad in the amount referred to above. Regarding the tax credit arising from IRRF, the amount collected was administratively annulled, and the remaining CIDE amount is still being disputed. A Performance Bond was offered, and a preliminary injunction was granted in favor of the Company. In October 2013, the proper Tax Execution Action was filed, being currently stayed as a result of the injunction granted in the case records of the action for annulment. The risk is classified as possible, taking into account the favorable precedents determined by the Judicial Branch.

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In May 2010, TIM Celular received three tax assessment notices from the Federal Revenue Department in São Paulo, amounting to R\$ 50,026 involving: (i) failure to pay IRRF on earnings of overseas residents remitted as international roaming and payment to unidentified beneficiaries; (ii) failure to pay CIDE on payment of royalties on remittances abroad, as well as on remittances concerning international roaming; and (iii) reductions to fiscal losses (IRPJ/CSLL) referring to the deduction of unproven expenses by way of technical services. These assessments were immediately challenged by the subsidiary and are awaiting a decision at the administrative level. A portion of these tax assessment notices in the restated amount of R\$ 2,773 was classified as probable loss and, therefore, provided in November 2011.

In November 2010, TIM Celular filed a lawsuit aiming at ensuring the right not to pay CSLL on monetary variations arising from swap transactions, in the total amount of R\$ 35,662. We are awaiting the second administrative instance judgment.

In February 2012 and December 2013, TIM Celular received 3 tax assessment notices from the Federal Revenue Service in São Paulo, amounting to R\$ 186,935, where loss has been classified as possible. These involve: (i) CIDE tax on overseas remittances; and (ii) income tax at source on royalties and payments for technical assistance for persons residing or domiciled abroad. These assessments were contested on a timely basis by the subsidiary, and we are awaiting the first administrative instance judgment.

(e.3.3)

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 Subsidiary and allegedly not paid, as well as in connection with the sale of phone sets. The amount that is now being disputed is R\$ 29,056 of which R\$ 23,305 is classified as possible risk and R\$ 5,753 as probable risk. The original tax assessment was for the sum of R\$ 95,449.

In October 2009 and June 2011 the subsidiary TIM Celular received tax assessment notices drawn up by the tax authorities of the States of Bahia and Ceará concerning (i) alleged double entries; absence of tax documents attesting to entitlement to ICMS credits; application of incorrect rates; booking of taxable services as non-taxable; (ii) failure to make ICMS payments for having failed to produce documentary proof of the reversal of the debit. The tax assessment notices issued by the State of Ceará are being defended at the administrative level, and total R\$ 50,154. Given the conclusion of the administrative phase, the tax credit recorded by the State of Bahia is being contested at the judicial level, and the subsidiary submitted, as established by court order, a bank guarantee to support the claim. The amount involved totals R\$ 25,309.

In October 2003, TIM Celular filed a Writ of Mandamus for the purpose of waiving the charge of 2% (two per cent) referring to the State Fund against Poverty (FECOP) on pre-paid cards. Up to November 2013, the subsidiary made a monthly judicial deposit of the amounts ascertained, which currently total R\$ 51,368.

TIM has received tax assessment notices for ICMS drawn up by the tax authority in the State of Rio de Janeiro for allegedly defaulting on payment of the tax on international roaming services provided. The aforementioned assessment is being challenged at the administrative level and amounts to R\$ 27,900.

TIM Celular received tax assessment notices drawn up by the tax authorities of the States of Bahia and São Paulo for the respective sums of R\$ 16,406 and R\$ 46,923 alleging failure to proportionally reverse ICMS credits on shipment of exempt and non-taxed goods. The tax assessment notice drawn up by the tax authorities of the State of São Paulo was challenged at the administrative level, and is pending judgment. Given the conclusion of the administrative proceeding discussing the tax credit recorded by the tax authorities of the State of Bahia against the subsidiary, a legal action was filed and bonds were posted. The total amount involved is R\$ 73,127.

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TIM Celular received assessment notices from the tax authorities of the States of São Paulo and Minas Gerais for the respective sums of R\$ 469,776 and R\$ 24,771, for allegedly having failed to include conditional discounts offered to clients in the ICMS basis of calculation, in addition to non-compliance with an ancillary obligation. One of the proceedings filed in the State of São is currently being discussed at the judicial level, in the amount of R\$ 386,713. This subsidiary intends to challenge the aforementioned collections at the higher court.

TIM Celular received in 2009, 2011 and 2012 tax assessment notices for the total sum of R\$ 201,838 drawn up by the tax authorities of the States of Paraná, R\$ 14,785, Pernambuco, R\$ 20,436, Rio de Janeiro, R\$ 33,019, São Paulo, R\$ 51,201, Ceará, R\$ 42,537, Paraíba, R\$ 14,083 and Bahia, R\$ 25,777, in connection with an alleged debit arising from taking ICMS credit on the purchase of electric energy. The aforementioned assessments are being challenged at the administrative level, R\$ 47,804, and at the judicial level, R\$ 154,034.

TIM Celular received assessment notices from the tax authorities of the States of Paraná and Paraíba, in the amounts of R\$ 24,047 and R\$ 28,668, respectively, involving alleged failure to pay ICMS levied on telecommunication services provided (pre-paid model) - outgoing telephone card operations. Due to the closing of the administrative proceeding in the State of Paraíba, the subsidiary filed a legal remedy to post a Performance Bond in the amount of R\$ 53,899. The assessment in the State of Paraná is being defended at the administrative level. Recently, the subsidiary reclassified part of the amount to probable loss, and consequently recorded a provision –of R\$ 17,049.

In September 2007, November 2010, June, November and December 2011, July and November 2012, and July 2013, TIM Celular received assessment notices drawn up by the tax authorities of the States of São Paulo, Rio Grande do Sul, Rio de Janeiro, Paraíba, Paraná and Bahia for an amount of R\$ 548,085 involving points raised by the tax inspectors about the alleged reversal of ICMS tax credits regarding the acquisition of permanent assets allegedly without proof of origin of these entries in the CIAP (Control of ICMS Credits on Permanent Assets) Book. These assessments are being challenged at the administrative level, in the amount of R\$ 389,407, and in the judicial level, in the amount of R\$ 158,677.

In May 2011, TIM Celular received a tax assessment notice drawn up by the State of São Paulo in the amount of R\$ 367,860 involving (i) a penalty for alleged non compliance with an ancillary obligation for the alleged failure to present the 60i register of the SINTEGRA file for 2007 and 2008; and (ii) the alleged failure to pay ICMS on discounts deemed by the tax inspector to be conditional. The proceeding is pending decision by the administrative court of appeals. In December 2012, the subsidiary filed a legal action and posted bonds to discuss a tax credit in the amount of R\$ 82,390 recorded against it by the tax authorities of the State of São Paulo, for collection of a fine resulting from alleged non-compliance with ancillary obligations.

In July 2011, TIM Celular filed a lawsuit aiming to discuss a tax assessment notice drawn up by the State of São Paulo regarding an alleged incorrect ICMS tax credit, due to annulment of Telecom services as a result of incorrect invoicing/subscription fraud from March to December 2008, as well as regarding an alleged incorrect ICMS tax credit

and overpayment in August and September 2008, in the amount of R\$ 19,165.

In July, September and October 2011 and December 2012, TIM Celular received a tax assessment notices from the tax authorities of the States of São Paulo, Mato Grosso, Paraíba and Minas Gerais in the amount of R\$ 304,988, involving (i) alleged failure to pay ICMS tax from having failed to include in the calculation tax on communication services referring to installments taxed as "non-taxable/exempt"; and (ii) alleged failure to pay ICMS tax for having included on tax receipts the negative base by way of financial credits granted to customers involving services contested, leading to the reversal of debits without complying with the legislation. These assessments are being challenged by the subsidiary at the administrative level. The amount of R\$ 291,096 has been classified as a possible risk, while R\$ 13,891 has been reclassified as a remote risk on account of the partial success obtained in the tax review procedure.

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In December 2011, TIM Celular received a tax assessment filed by the State of Paraná amounting to R\$ 63,101, alleging improper availment of ICMS credits referring to the period from May 2010 to August 2011. This assessment is being contested by the subsidiary at the administrative level.

In December 2011, the subsidiary Intelig filed a suit to contest the tax assessment notice filed by the State of São Paulo, in the amount of R\$ 20,285, which alleges improper availment of ICMS credits referring to the reversal of debits declared in the ancillary obligations of the state relating to tax events occurring in February, November and December 2003. This assessment is being contested at the judicial level.

In January 2012, TIM Celular filed a suit to discuss the debt charged by the State of São Paulo on the alleged failure to pay the ICMS tax, as verified upon comparing the tax control register to the accessory obligation, and failure to submit the electronic file - Agreement 115, in the amount of R\$ 34,638, regarding the administrative collection made in the year 2009. In October 2012, the Tax Execution was received. The advanced guarantee previously offered was transferred to the Tax Execution, and a motion for execution was filed.

In March 2012, TIM Celular received a tax assessment notice drawn up by the Federal Revenue Department of the State of Rio de Janeiro, in the amount of R\$ 15,603, with respect to extemporaneous credits arising from the acquisition of property, plant and equipment. Such tax assessment notice is being discussed also at the judicial level, through a Writ of Mandamus.

In May 2012, TIM Celular received a tax assessment notice drawn up by the tax authorities of the State of São Paulo, in the amount of R\$ 56,082, regarding ICMS tax difference on the amount of inventories existing on May 31, 2009, before the effectiveness of ST in the State of São Paulo in 2009. Such tax assessment notice is being discussed by the subsidiary at the administrative level.

In May and July 2012, TIM Celular received two tax assessment notices from the States of Rio de Janeiro and Bahia with respect to an alleged incorrect ICMS tax credit related to the reversal of debts from tax on the provision of telecommunications services, in the amounts of R\$ 21,159 and R\$ 16,463 respectively, totaling R\$ 37,622. The subsidiary is discussing these assessments at the administrative level. Due to the closing of the administrative phase in the State of Bahia, the subsidiary filed a legal remedy to post a Bond in the amount of R\$ 19,208. Tim Celular is defending this administrative proceeding in the State of Rio de Janeiro.

In June 2012, TIM Celular received from the State of São Paulo a tax assessment notice in the amount of R\$ 23,571 regarding alleged failure to pay or delay in paying ICMS tax on transactions involving receipt of goods subject to the Tax Substitution Regime. The subsidiary has challenged such tax assessment notice.

In January 2013, TIM Celular received a tax assessment notice from the State of São Paulo in the amount of R\$ 16,475 regarding an alleged improper credit of an amount entered in the July 2012 GIA, arising from refusal of a

request for ICMS tax credit offset. The tax assessment notice has been defended administratively and is awaiting first-instance judgment.

In January and April 2013, TIM Celular received two tax assessment notices from the State of São Paulo regarding an alleged improper ICMS credit arising from the interstate purchase of goods with tax benefit granted in the State of origin (DF) in the amounts of R\$ 80,695 and R\$ 35,500. The tax assessment notices are being defended administratively and are awaiting judgment by the court of appeals.

In February 2013, TIM Celular received a tax assessment notice from the State of Ceará regarding an alleged lack of total or partial payment of ICMS, including the amount owed for tax substitution referring to the years 2008 and 2009, in the amount of R\$ 75,170. The tax assessment notice has been defended administratively and is awaiting first-instance judgment. In December 2013, the subsidiary reclassified the chances of loss as a probable risk and recorded a provision for part of the amount assessed, totaling R\$ 2,436.

In May 2013, TIM Celular received service of process for Tax Foreclosure handed down by the State of Rio Grande do Norte, for the collection of tax credits of R\$ 17,918 in ICMS tax and FECOP arising from having allegedly committed several violations, including (i) alleged improper appropriation of credits on goods intended for permanent assets; (ii) non-payment of ICMS tax levied on communication services and the sale of goods ascertained by cross checking the information on the company's tax and accounting entries.

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In September 2013, TIM Celular filed a legal action and posted the proper bonds to discuss a tax credit recorded by the State of Bahia, upon issuance of a tax assessment notice to collect ICMS tax resulting from alleged purchase and sale transactions involving goods without the respective accounting entry. The amount involved is R\$ 17,242.

In December 2013, TIM Celular received a tax assessment notice in the amount of R\$ 582,702 issued by the State Treasury Office of the Federal District due to alleged underpayment of ICMS tax resulting from the use of a tax benefit (Pró-DF) granted by the tax authority, but declared unconstitutional by the Court of Justice of the Federal District and Territories. The subsidiary is being defended at the administrative level.

(e.3.4) **Municipal claims**

On December 20, 2007, 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. The aforementioned assessments are being challenged by the subsidiary at the administrative level.

Since March 2011, TIM Celular has been served with tax assessment, currently 71, notices drawn up by the municipality of São Paulo, with respect to ISS plus fines imposed on the Company's several revenue accounts, in the amount of R\$ 41,927. Recently, TIM Celular became aware of the unsuccessful closing at the administrative level of 27 of these tax assessments, which were forwarded for inclusion in overdue tax liabilities, and subsequent ruling on 5 tax foreclosures totaling R\$ 110,998. The subsidiary arranged for sureties to be issued so as to judicially guarantee the debits while they are being discussed.

(e.3.5) **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 TIM Celular that based on the provisions contained in the pertinent 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. Management has taken the necessary measures to protect the interests of the subsidiary company. To that end, a writ of mandamus was filed to protect the interests of TIM Celular 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.

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 2009,

together with a fine for arrears, on account of Abstract No. 07/05. The assessments for this period total a possible loss of R\$ 727,787.

The subsidiary Intelig has received a number of assessment notices from ANATEL, which add up to a total amount of R\$ 76,066 in connection with FUST charges that are allegedly due on interconnection revenues for the periods from January to December 2001 to 2009. The aforementioned assessments are being challenged at the administrative level.

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(e.3.6) FUNTTEL - Telecommunications Technological Development Fund

The Ministry of Communications drew up assessment notices against the subsidiary TIM Celular in the amount of R\$ 300,495, in connection with FUNTTEL amounts due on interconnection revenues for the years from 2001 to 2009, as well as a fine for arrears. It is the continued understanding of the subsidiary that the above mentioned revenues are not subject to FUNTTEL. A writ of mandamus was filed to safeguard the subsidiary'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\$ 22,001 in connection with FUNTTEL charges that are allegedly due on interconnection revenues for the period from 2002 to 2009. The aforementioned assessments are being challenged at the administrative level.

(e.4) Regulatory proceedings

(e.4.1) Due to an alleged failure to comply with some of the provisions set out in the RSMP (Personal Mobile Service Regulations), the STFC (Switched Landline Telephone Service Regulations) and the quality targets defined under the General Quality Targets Plan (PGMQ) for SMP (PGMQ-SMP) and STFC (PGMQ-STFC), Anatel filed ninety Procedures for the Determination of Non-Compliance of Obligations (PADO), involving the subsidiaries.

TIM Celular is authorized to provide SMP services in all Brazilian states and the federal District for an indefinite period, and to use the associated radio frequencies, having obtained an extension from Anatel of the authorizations for such radio-frequency usage, under the Instruments of Authorization, for a period of 15 years counting from the end of the original period of validity of these authorizations.

In February 2011, orders issued by Anatel determined a charge of 2% on interconnection revenue concerning the cumulative payment of extensions of right of use of radio frequency renewals. These decisions have been challenged by a Request for Reconsideration (Case No. 53500.008519/2012), an Annulment Action to be filed (Case No. 53500.009876/2009 and exhibits) and a Legal Suit (Suit for Consignment in Payment and Writ of Mandamus) filed by TIM Celular, given the understanding that there is no regulatory obligation associated to payments other than those exclusively linked to direct revenues from their service plans.

The Request for Reconsideration (Case No. 53500.009876/2009 and exhibits) was judged in February 2013, and Anatel denied the appeal, maintaining the terms of the decision appealed. Once notified of the decision, TIM will therefore adopt new legal measures (Annulment Action) to ensure the suspension of the enforceability of the debits.

Anatel denied the Administrative Appeal (Case No. 53500.008519/2012) by means of Order No. 2,895 of May 8, 2013. For this reason, as soon as it is notified of such decision, TIM will file a Request for Reconsideration. Moreover, Anatel, by means of an Order from the Presidential Office issued in October 2012, Anatel overruled the suspensive effect requested by TIM Celular through an appeal. In the light of this, in November 2011, the subsidiary filed a Writ of Mandamus against Anatel, requesting the granting of a Preliminary Injunction, in order to give suspensive effect to the Appeal filed; however, the Preliminary Injunction was not granted.

Also in November 2011, Anatel published Abstract 11/2011, in which the Director of the agency explained his understanding regarding the levying of interconnection revenue for STFC concessionaires when calculating the onus (2% of the revenues) arising from extending STFC concession agreements.

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On April 30, 2012, TIM Celular filed a Suit for Consignment in Payment No. 0020904-41.2012.4.01.3400, making a court deposit of the amounts corresponding to the payment of a 2% lien on revenues from SMP plans, which expired in 2012. In this sense, it requested processing of the Appeal filed as required. On May 30, 2012, TIM Celular filed a Writ of Mandamus with Injunction, so as to suspend the Appeal filed under Case No. 53500.008519/2012. Nevertheless, the Injunction was not granted.

On May 30, 2012, TIM Celular filed a Request for Reconsideration, in case records No. 53500.007487/2011, due to the decision rendered by Anatel rejecting the Appeal filed. On May 31, 2012, TIM Celular filed a Writ of Mandamus with Injunction, so as to suspend the Request for Reconsideration filed. However, the Injunction was not granted, and, through Order No. 5458/2012-CD, published in the Federal Official Gazette on September 3, 2012, Anatel decided to take cognizance of the Request for Reconsideration filed by TIM Celular in the case records so as to reject it on the merits. TIM Celular took other legal measures applicable so as to ensure unenforceability of this debt and filed an Action for Annulment, which was challenged by Anatel. TIM Celular submitted its Reply in January 2013. This case is pending judgment.

On November 27, 2012, Anatel published Precedent No. 13/2012, whereby the Board of Directors of this Agency issues its understanding that "The base for calculation of the amount payable for the renewal of the right to use radio frequencies, as set forth in the Instruments of Authorization for the provision of the Personal Mobile Service (SMP), includes, among others, revenue from interconnection and from additional conveniences as well as operating revenue from the provision of SMP." Thus, on December 21, 2012, TIM submitted to Anatel the Request for Annulment of Precedent No. 13/2012, which is still pending analysis.

On April 22, 2013, TIM filed an Objection on the records of Case No 53500.003758/2013 against the requirement of "additional amounts" regarding the extension of the right to use radio frequencies associated with the provision of the Personal Mobile Service (SMP), which is pending analysis by Anatel. By means of Official Letter No. 423/2013/GPR-ANATEL, of November 12, 2013, TIM was notified of Decision Order No. 5.467/2013-PR, of November 11, 2013, by means of which Anatel denied the staying effect requested.

On April 30, 2013, TIM filed an Objection in the records of the Case No. 53500.005844/2013 against the inclusion of interconnection revenues and Value Added Services in the 2% charge on the contractual burden resulting from the extension of the right to use radio frequencies associated with the provision of the Personal Mobile Service (SMP), which is pending analysis by Anatel. By means of Official Letter No. 426/2013/GPR-ANATEL, of November 13, 2013, TIM was notified of Decision Order No. 5.456/2013-PR, of November 11, 2013, by means of which Anatel denied the staying effect requested.

(e.4.2) Furthermore, in view of the extension of authorization of usage of the radio frequencies associated with SMP, the subject matter of the above mentioned Instruments of Authorization issued in accordance with the respective acts, the Company received demands from Anatel for payment of a new Facilities Inspection Fee (TFI) for all its

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mobile stations in operation in the service-provision area, although these stations have already been licensed, for the sums shown in the table below.

| State | Instrument of authorization | Expiry Date | Act | Amount (R\$ /1000) |
|--|-----------------------------|-------------|------------------------|--------------------|
| Paraná (excluding the municipalities of Londrina and Tamarana) | 002/2006/PVCP/SPV | 09/03/2022 | 57.551 dated 4/13/2006 | R\$ 80,066 |
| Santa Catarina | 074/2008/PVCP/SPV | 09/30/2023 | 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 |
| Ceará | 084/2008/PVCP/SPV | 11/28/2023 | 7.385 dated 11/27/2008 | R\$ 41,728 |
| Alagoas | 085/2008/PVCP/SPV | 12/15/2023 | 7.383 dated 11/27/2008 | R\$ 20,038 |
| Rio Grande do Norte | 087/2008/PVCP/SPV | 12/31/2023 | 7.390 dated 11/27/2008 | R\$ 19,844 |
| Paraíba | 086/2008/PVCP/SPV | 12/31/2023 | 7.386 dated 11/27/2008 | R\$ 15,020 |
| Piauí | 088/2008/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 |
| Bahia and Sergipe | 412/2012/PVCP/SPV | 8/06/2027 | 3.833 dated 7/06/2012 | R\$ 110,803 |
| MG | 172/2013/PVCP/SPV | 4/07/2028 | 710 dated 1/30/2013 | R\$ 185,647 |

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The demand for payment of TFI is a result of Anatel's understanding of the due application of the provision of Article 9, sub-section 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, which was refuted by Anatel. After all administrative measures have been taken, the matter is now being handled at the judicial level, and a favorable Injunction stayed the enforcement of the charge until the definitive ruling of the suit.

According to the Instruments of Authorization for the operation of SMP, TIM Celular agreed to and undertook in stages the implementation of SMP coverage in relation to its respective regions, within the scope of the areas it had been awarded in the respective lots. Also referred to, as the terms of authorization, the Subsidiaries are required to operate within the quality standards established by Anatel and adhering to the obligations required by the legislation.

Anatel has brought administrative proceedings against the subsidiaries for: (i) failure to meet with certain quality service indicators; (ii) default on certain obligations assumed under the Instruments of Authorization; and (iii) non-compliance with the regulations of SMP and STFC, among others.

The Subsidiaries submitted to Anatel administrative defenses and filed administrative appeals and requests for reconsideration (through the courts whenever necessary), explaining that the non-compliance was due to several factors, most of them involuntary and not related to the activities and actions performed by the companies.

25 Asset retirement obligations

The changes in the obligations deriving from future asset retirement are set forth below:

| | 2013 | 2012 |
|---|---------|---------|
| Opening balance | 298,808 | 261,918 |
| Additions recorded throughout the period, net of write-offs | 1,005 | 36,890 |
| Closing balance | 299,813 | 298,808 |

The provision is recorded based on the following assumptions:

- the unitary dismantling costs are estimated, taking into account the services and materials involved in the process. The estimate is prepared by the network department based on the information currently available;

- a timetable for the dismantling is estimated based on the useful life of the assets and the estimated costs are allocated through this timetable updated by the expected inflation rate. The expected inflation rate is aligned with the projections prepared by the main market institutions; and
- the rate used to discount the cash flows is the average debt cost, that was 8.75% p.a. at December 31, 2013 (7.70% p.a. at December 31, 2012).

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26 Shareholders' equity

(a) Capital

Upon resolution by the Board of Directors, without amending the bylaws, the Company is authorized to increase its capital to up to 4,450,000,000 common shares.

The subscribed capital is represented as follows:

| | 2013 | 2012 |
|-------------------------|---------------|---------------|
| Value paid-in | 9,886,887 | 9,886,887 |
| (-) Funding costs | (47,117) | (47,117) |
| Net value paid-in | 9,839,770 | 9,839,770 |
| Number of common shares | 2,417,632,647 | 2,417,632,647 |

(b) Capital reserves

The use of capital reserves is according to the provisions of Article 200 of Law No. 6404/76. These reserves are comprised as follows:

| | 2013 | 2012 |
|---------------------------------|-----------|---------|
| Special goodwill reserve | 380,560 | 380,560 |
| Capital reserve - stock options | 10,684 | 6,440 |
| Tax benefit reserve | 826,396 | |
| | 1,217,640 | 387,000 |

Tax benefit reserve

TIM Celular enjoys tax benefits that provide for restrictions in the distribution of profits of this subsidiary. According to the legislation that establishes such tax benefits, the amount of taxes waived as a result of exemptions and reductions in the tax charge may not be distributed to shareholders, and must be registered as a tax incentive reserve of the legal entity. This reserve should only be used for absorption of losses or capital increase. The accumulated amount

of benefits which TIM Celular enjoyed at December 31, 2013 was R\$ 826,396.

Special goodwill reserve

The special goodwill reserve arose from the following transactions:

- (i) Takeover of the former subsidiaries TIM Sul and TIM NE - acquisition of minority shares

In 2005 the Company acquired all shares held by the minority shareholders of TIM Sul S.A. and TIM Nordeste Telecomunicações S.A. This acquisition took place by issuing new shares of TIM Participações S.A., converting those companies into full subsidiaries. At the time, this transaction was recorded at the book value of the shares, no goodwill being recorded arising from the difference between market value and the shares negotiated.

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When first adopting IFRS, the Company availed itself of the exemption that allows a subsidiary, when it adopts international accounting practices subsequent to its parent company having adopted IFRS, to consider the balances previously reported to the parent company for consolidation purposes. In the balance sheet of the transition to IFRS, the Company recorded the acquisition price based on the market value of the shares of TIM Participações S.A. at that time, recording goodwill amounting to R\$ 157,556.

(ii) Acquisition of the shares of Holdco - purchase of Intelig

On December 30, 2009, the Special General Meeting of TIM Participações S.A. approved the takeover by TIM Participações of Holdco, a company that held 100% of the equity of Intelig. As a result of this transaction, the Company issued 127,288,023 shares.

Based on the former BR GAAP, the acquisition was recorded at the net book value of the assets acquired on the base date November 30, 2009.

When IFRS was first adopted, the acquisition was recorded on the base date December 31, 2009, taking into account the market value of the common and preferred shares of TIM Participações on December 30, 2009, amounting to R\$ 739,729. The difference between this amount and the book value recorded under the former BR GAAP (R\$ 516,725) created goodwill against capital reserves of R\$ 223,004.

Stock options

The balances recorded in these items represent the expenses of the Company and its subsidiaries for the stock options granted to their employees (note 27).

(c) Revenue 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.

Statutory reserve for expansion

This reserve is set up based on paragraph 2, Article 42 of the Company's bylaws and Article 194 of Law No. 6404/76, and is intended for the expansion of the corporate business.

The balance of profits that are not compulsorily allocated to other reserves or intended for the payment of dividends, is allocated to this reserve, which may not exceed 80% of the capital. Once this limit is reached, it is incumbent on the shareholders' meeting to decide on the balance, either distributing this to shareholders or increasing the capital.

(d) Dividends

Dividends are calculated in accordance with the bylaws and Brazilian Corporate Law.

As stipulated in its latest bylaws approved on December 12, 2013, the Company must distribute a mandatory dividend for each business year ended December 31, provided that funds are available for distribution, in an amount equivalent to 25% of the adjusted net income.

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The dividends were calculated as follows:

| | 2013 | 2012 |
|---|-----------|-----------|
| Net income for the current year | 1,505,614 | 1,448,888 |
| (-) Legal reserve constitution | (75,281) | (72,444) |
| Adjusted net income | 1,430,333 | 1,376,444 |
| Dividends to be distributed | | |
| Minimum dividends calculated considering 25% of the adjusted net income | 357,583 | 344,111 |
| Dividends per share (Reais per share) | 0.1480 | 0.1423 |

The General and Special Meeting of Shareholders ("GEMS") held on April 11, 2013 approved the payment of supplementary dividends (over and above the mandatory minimum) of R\$ 398,889.

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Stock options

At the annual meeting on August 5, 2011, the shareholders of TIM Participações S.A. approved the long-term incentives plan for senior management and key executives of the Company and its subsidiaries.

The exercise of options depends on the simultaneous achievement of two performance targets: (1) an increase in the price of common shares; and (2) performance of the Company's share price against a benchmark defined by TIM's Management and composed of shares of other telecommunications, technology and media companies.

Stock options are effective for 6 years, and the Company has no legal or informal obligation to repurchase or settle the options in cash.

Regarding the 2011 Grant, one-third of the options could be exercised at the end of July 2012. However, at the end of July 2013, two-thirds of the options could not be exercised due to non-compliance with the minimum performance conditions accrued from 2011 to 2013. At the end of the first half of 2014, two-thirds may be exercised. The performance conditions of this grant are measured in the three-year period from 2011 to 2013, and the measurement occurs in July of each year.

Regarding the 2012 Grant, one-third of the options could not be exercised in the beginning of September 2013 due to non-compliance with the minimum performance conditions. Two-thirds may be exercised in the beginning of

September 2014 and three-thirds may be exercised in the beginning of September 2015, provided the minimum performance conditions are complied with. The performance conditions of this grant are measured in the three-year period from 2012 to 2014, and the measurement occurs in July and August of each year.

On July 30, 2013, the Board of Directors approved the conditions valid for the 3rd (third) Grant. One-third of the options may be exercised at the end of July 2014, two-thirds may be exercised at the end of July 2015 and three-thirds may be exercised at the end of July 2016, provided the minimum performance conditions are complied with. The performance conditions for this grant are measured in the 2013-2015 three-year period, in July of each year.

Using the accrual basis of accounting, the expenses related to the long-term benefit plan are being accounted on a monthly basis and, at the end of 2013 totaled R\$ 4,244.

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2011 Grant

On the grant date (August 5, 2011), the exercise price of the options granted was calculated based on the weighted average price of shares of TIM Participações S.A. This average took into account the Company's trading volume and share prices in the 30 days prior to July 20, 2011 (when the Board of Directors of the Company approved the benefit).

On August 5, 2011, options were granted for purchase rights on 2,833,596 shares. At December 31, 2013, no options were exercisable.

The significant data included in the model were the following: average weighted share price of R\$ 8.31 on the grant date; exercise price of R\$ 8.84 and volatility of 51.73% p.a.; stock option expected life of 6 years and annual risk-free interest rate of 11.94% p.a. Volatility measurements were based on the price of common shares of TIM over a period of 6 years.

2012 Grant

On the grant date (September 5, 2012), the exercise price of the options granted was calculated based on the weighted average price of shares of TIM Participações S.A. This average took into account the Company's trading volume and share prices from July 1, 2012, to August 31, 2012.

On September 5, 2012, options were granted for purchase rights on 2,661,752 shares. At December 31, 2013, there were no exercisable options.

The significant data included in the model were the following: weighted average share price of R\$ 8.96 on the grant date and volatility of 50.46%, p.a., stock option expected life of 6 years and annual risk-free interest rate of 8.89% p.a. Volatility measurements were based on the price of common shares of TIM over a period of 6 years.

2013 Grant

On the grant date (July 30, 2013), the exercise price of the options granted was calculated based on the weighted average price of the shares of TIM Participações S.A. Such average took into account the trading volume and trading price of the Company's shares over the 30-day period preceding July 20, 2013.

On July 30, 2013, options corresponding to the right to purchase 3,072,418 shares were granted. As of December 31, 2013, no options were exercisable.

The significant data included in the model were as follows: weighted average share price of R\$ 8.13 at the grant date; volatility of 48.45% p.a.; 6 years' expected life of the stock options, and risk-free annual interest rate of 10.39% p.a.

The volatility was calculated based on the price of common shares of TIM over a period of 6 years.

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| 28 | Net operating revenue | | | |
|-------------------------------|-----------------------|--------------|--------------|--------------|
| | | 2013 | 2012 | 2011 |
| Service revenue - Mobile | | | | |
| Subscription and use | | 11,309,804 | 11,086,671 | 10,264,716 |
| Network use | | 3,760,751 | 3,969,138 | 3,849,408 |
| Long distance | | 3,332,965 | 3,217,921 | 3,181,214 |
| VAS - Additional services | | 5,353,653 | 4,404,832 | 3,166,437 |
| Others | | 236,255 | 201,265 | 229,829 |
| | | 23,993,428 | 22,879,827 | 20,691,604 |
| Service revenue - Landline | | 1,071,787 | 1,470,259 | 1,525,446 |
| Service revenue | | 25,065,215 | 24,350,086 | 22,217,050 |
| Goods sold | | 4,596,539 | 3,405,726 | 2,540,516 |
| Gross operating revenue | | 29,661,754 | 27,755,812 | 24,757,566 |
| Deductions from gross revenue | | | | |
| Taxes | | (6,544,661) | (5,954,837) | (5,385,338) |
| Discounts given | | (2,948,294) | (2,774,672) | (2,092,406) |
| Returns and others | | (247,508) | (262,356) | (193,845) |
| | | (9,740,463) | (8,991,865) | (7,671,589) |
| Total net revenue | | 19,921,291 | 18,763,947 | 17,085,977 |

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Cost of services provided and goods sold

| | 2013 | 2012 | 2011 |
|--|------|------|------|
|--|------|------|------|

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| | | | |
|-------------------------------|--------------|-------------|-------------|
| Personnel | (61,130) | (61,632) | (40,348) |
| Third party services | (403,257) | (385,357) | (324,098) |
| Interconnection | (4,518,927) | (4,659,052) | (4,132,950) |
| Depreciation and amortization | (2,097,931) | (1,861,980) | (1,717,476) |
| ANATEL fees | (13,071) | (11,767) | (9,633) |
| Rentals and insurance | (358,948) | (277,483) | (232,643) |
| Others | (18,097) | (18,735) | (22,939) |
| Cost of services provided | (7,471,361) | (7,276,006) | (6,480,087) |
| Cost of goods sold | (3,350,841) | (2,604,978) | (2,062,552) |
| | (10,822,202) | (9,880,984) | (8,542,639) |

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| | | | | |
|----|------------------------------------|-------------|-------------|-------------|
| 30 | Sales expenses | | | |
| | | 2013 | 2012 | 2011 |
| | Personnel | (563,486) | (501,563) | (451,761) |
| | Third party services | (2,201,727) | (2,164,639) | (2,287,061) |
| | Advertising and publicity | (592,421) | (537,765) | (530,145) |
| | Impairment of accounts receivables | (240,051) | (250,972) | (231,529) |
| | ANATEL fees | (1,030,576) | (1,027,594) | (1,037,066) |
| | Depreciation and amortization | (170,084) | (178,691) | (231,468) |
| | Rentals and insurance | (76,509) | (57,399) | (38,442) |
| | Others | (36,668) | (55,538) | (41,040) |
| | | (4,911,522) | (4,774,161) | (4,848,512) |

| | | | | |
|----|-------------------------------------|-------------|-------------|------------|
| 31 | General and administrative expenses | | | |
| | | 2013 | 2012 | 2011 |
| | Personnel | (207,260) | (165,837) | (140,719) |
| | Third party services | (513,741) | (446,548) | (422,331) |
| | Depreciation and amortization | (180,570) | (312,714) | (320,036) |
| | Rentals and insurance | (72,779) | (73,196) | (58,804) |
| | Others | (38,206) | (31,648) | (21,504) |
| | | (1,012,556) | (1,029,943) | (963,394) |

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| 32 | Other income (expenses), net | 2013 | 2012 Reclassified | 2011 Reclassified |
|-----------------|---|------------|----------------------|----------------------|
| Income | | | | |
| | Subvention income, net | 11,677 | 7,542 | 3,683 |
| | Fines on telecommunications services | 39,226 | 37,542 | 32,155 |
| | Other income (expenses) | 8,030 | (11,147) | 21,301 |
| | | 58,933 | 33,937 | 57,139 |
| Expenses | | | | |
| | FUST/FUNTTTEL | (173,241) | (183,224) | (224,136) |
| | Taxes, fees and contributions | (1,416) | (2,624) | (1,994) |
| | Provision and contingencies - net of reversal | (279,755) | (236,340) | (150,163) |
| | Other operating expenses | (21,374) | (32,036) | (17,641) |
| | | (475,786) | (454,224) | (393,934) |
| | Amortization of concessions | (319,285) | (335,203) | (326,988) |
| | | (795,071) | (789,427) | (326,988) |
| | Other expenses, net | (736,138) | (755,489) | (663,783) |

| 33 | Finance income | 2013 | 2012 Reclassified | 2011 Reclassified |
|----|-----------------------------------|---------|----------------------|----------------------|
| | Interest on financial investments | 257,376 | 153,026 | 205,408 |
| | Interest received from clients | 63,855 | 68,837 | 48,871 |
| | Swap interest | 79,561 | 174,981 | 169,908 |
| | Monetary adjustment | 46,200 | 80,719 | 57,251 |
| | Other revenue | 4,399 | 1,452 | (1,009) |

| | | |
|---------|---------|---------|
| 451,391 | 479,015 | 480,429 |
|---------|---------|---------|

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| | | | | |
|----|----------------------------------|------------|----------------------|----------------------|
| 34 | Finance costs | | | |
| | | 2013 | 2012 Reclassified | 2011 Reclassified |
| | Interest on loans and financing | (268,133) | (227,764) | (251,101) |
| | Interest paid to suppliers | (54,992) | (21,261) | (13,802) |
| | Interest on taxes and fees | (1,191) | (15,732) | (54,907) |
| | Swap interest | (173,649) | (214,713) | (271,026) |
| | Monetary adjustment | (103,582) | (79,173) | (37,602) |
| | Discounts granted | (97,066) | (71,325) | (66,347) |
| | Other expenses | (51,087) | (14,786) | (30,331) |
| | | (749,700) | (644,754) | (725,116) |
| 35 | Foreign exchange variations | | | |
| | | 2013 | 2012 Reclassified | 2011 Reclassified |
| | Revenue | | | |
| | Borrowings and financing | 1,189 | 191,768 | 116,258 |
| | Suppliers | 7,504 | 9,758 | 10,903 |
| | Swaps | 206,332 | 316,185 | 233,622 |
| | Others | 19,738 | 34,077 | 32,799 |
| | | 234,763 | 551,788 | 393,582 |
| | Expenses | | | |
| | Borrowings and financing | (233,446) | (313,172) | (232,601) |
| | Suppliers | (17,336) | (21,724) | (16,558) |
| | Swaps | 22,113 | (194,514) | (121,183) |
| | Others | (10,505) | (26,529) | (22,721) |
| | | (239,174) | (555,939) | (393,063) |
| | Foreign exchange variations, net | (4,411) | (4,151) | 519 |

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| 36 | Income tax and social contribution expenses | 2013 | 2012 | 2011 |
|---|---|------------|------------|------------|
| Current tax | | | | |
| Income tax for the period | | (340,763) | (360,491) | (334,375) |
| Social contribution for the period | | (110,565) | (133,472) | (120,718) |
| Tax incentive - ADENE | | 151,316 | 82,399 | 142,039 |
| Others | | - | - | 3,656 |
| | | (300,012) | (411,564) | (309,398) |
| Deferred income tax | | | | |
| Deferred income tax | | (240,518) | (213,641) | (184,090) |
| Deferred social contribution | | (86,585) | (76,937) | (52,148) |
| | | (327,103) | (290,578) | (236,238) |
| Provision and contingencies of income tax and social contribution | | (3,424) | (2,450) | - |
| | | (630,539) | (704,592) | (545,636) |

The reconciliation of income tax and social contribution expenses calculated at the applicable tax rates plus the amounts reflected in the income statement is set forth below:

| | 2013 | 2012 | 2011 |
|---|------------|------------|------------|
| Income before income tax and social contribution | 2,136,153 | 2,153,480 | 1,823,481 |
| Combined tax rate | 34 % | 34 % | 34 % |
| Income and social contribution taxes at the combined tax rate | (726,292) | (732,183) | (619,984) |
| (Additions)/exclusions: | | | |
| Unrecognized tax losses and temporary differences | (53,214) | (72,792) | (31,667) |
| Attributed cost | | (34,000) | - |
| Technological innovation | | (6,377) | - |
| Tax incentive - ADENE | 151,316 | 82,400 | 142,039 |

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| | | | |
|---|------------|------------|------------|
| Deferred IR/CS over REFIS | - | - | (25,680) |
| Permanent additions | - | - | (7,120) |
| Realization of deferred income tax and social contribution - TIM Fiber merger | | 67,977 | - |
| Other amounts | (2,349) | (9,617) | (3,224) |
| | 95,753 | 27,591 | 74,348 |
| Income tax and social contribution charged to income for the period | (630,539) | (704,592) | (545,636) |

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According to Article 443, item I, of Decree No. 3000/1999, to subventions for investments not be considered within the taxable income, they must be recorded as capital reserves, to be used only to absorb losses or increase the share capital. The subsidiary TIM Celular has tax benefits compliant to these rules, having, therefore, constituted these reserves in the amount of R\$ 826,396.

In accordance with articles 71 and 95 of Provisional Measure 627/13 and as per the Technical Communication 02/2014, issued by Ibracon, the Company analyzed the potential tax impacts related to the dividends distribution in excess of amounts calculated according to the accounting practices in effect in Brazil as of December 31, 2007 (previous date in relation to the application of Law 11.638/07 which established the introduction of IFRS in Brazil). These procedures have been requested by the Federal Tax Authorities to verify the possible existence of dividends paid in excess when compared to ones which would have been calculated using the accounting principles generally accepted before the introduction of IFRS.

The maximum effect of the adoption of Provisional Measure 627/13 in the next fiscal year would not produce relevant impacts for the Company, reason why it will not opt for the application of the referred rule as from 2014. As from 2015, it is expected that all Brazilian companies will follow the new rule.

37 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing income attributable to shareholders of the Company by the weighted average number of shares issued during the year.

| | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|
| Income attributable to shareholders of the company | 1,505,614 | 1,448,888 | 1,277,845 |
| Weighted average number of common shares issued (thousands) | 2,416,837 | 2,416,837 | 2,263,662 |
| Basic earnings per share (expressed in R\$) | 0.6230 | 0.59950 | 0.5645 |

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

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| | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|
| Earnings attributable to shareholders of the company | 1,505,614 | 1,448,888 | 1,277,845 |
| Weighted average number of common shares issued (thousands) | 2,417,509 | 2,417,092 | 2,264,810 |
| Diluted earnings per share (expressed in R\$) | 0.6228 | 0.59943 | 0.5642 |

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38 Transactions with Telecom Italia Group

The consolidated balances of transactions with companies of the Telecom Italia Group are as follows:

| | Assets | |
|---------------------------------|---------------|---------------|
| | 2013 | 2012 |
| Telecom Personnel Argentina (1) | 1,484 | 935 |
| Telecom Italia Sparkle (1) | 16,949 | 32,925 |
| Lan Group (4) | 1,565 | 9,919 |
| Others | 3,003 | 4,104 |
| Total | 23,001 | 47,883 |

| | Liabilities | |
|---------------------------------|---------------|---------------|
| | 2013 | 2012 |
| Telecom Italia S.p.A. (2) | 32,267 | 20,702 |
| Telecom Personnel Argentina (1) | 1,435 | 1,462 |
| Telecom Italia Sparkle (1) | 21,683 | 11,386 |
| Italtel (3) | 24,403 | 23,975 |
| Others | 11,264 | 9,714 |
| Total | 91,052 | 67,239 |

| | Revenue | | |
|---------------------------------|---------------|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Telecom Italia S.p.A. (2) | 2,804 | 2,769 | 17,796 |
| Telecom Personnel Argentina (1) | 6,561 | 4,943 | 3,840 |
| Telecom Italia Sparkle (1) | 17,352 | 54,615 | 33,883 |
| Others | 1,120 | 1,534 | 1,511 |
| Total | 27,837 | 63,861 | 57,030 |

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| | 2013 | 2012 | Cost/expense 2011 |
|--------------------------------|---------------|---------------|----------------------|
| Telecom Italia S.p.A. (2) | 6,281 | 4,284 | 15,629 |
| Telecom Italia Sparkle (1) | 29,065 | 32,556 | 20,865 |
| Telecom Personal Argentina (1) | 4,129 | 6,999 | 6,714 |
| Lan Group (4) | 32,326 | 26,343 | 19,151 |
| Others | 16,641 | 11,491 | 1,572 |
| Total | 88,442 | 81,673 | 63,931 |

- (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 invoicing telecommunications services.
- (4) The amounts refer to the lease of links and EILD and signaling services.

The balance sheet account balances are recorded in the following groups: accounts receivable, suppliers and other current assets and liabilities.

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Transactions with Telefonica 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, from Telco S.p.A ("Telco"), come to hold 23.6% of the voting capital of Telecom Itália S.p.A., the indirect parent company of TIM Participações (the "Transaction").

Through its Act No. 68.276/2007, published in the Federal 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 the purposes of ANATEL's requirements, TIM Brasil and TIM Celular submitted to ANATEL the necessary measures to ensure this segregation de facto and ipso jure in Brazil, so that Telefonica's participation in Telco S.p.A. could not be characterized as influencing the financial, operational and strategic decisions made by the operators of the TIM Group in Brasil.

Furthermore, in April 2010, as a condition for the approval of the Transaction by the Administrative Council of Economic Defense (CADE), related to the Concentration Act No. 53500.012487/2007, Telco's subsidiaries signed a Performance Commitment Instrument (TCD), which determined the rules of Telefonica's shareholding participation on Telecom Italia deliberations and its governance restrictions to the Brazilian market. TIM Brasil Serviços e Participações S.A., controlling company of TIM Participações, also signed this TCD agreement as stakeholder part.

In the supervision of the fulfillment of the TCD in 2013, CADE, after Telefonica's elucidations about the new shareholders' agreement of Telco and the increase in its ownership on capital stock of that entity, decided to determine, aiming to maintain the initial conditions that enabled the approval of the Transaction in 2010, the sale by Telefonica, within the period confidentially stipulated by CADE, of the acquired shares in 2013 that resulted in the increase of Telefonica's ownership on the Telco's capital stock.

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TIM Participações continues to operate in the Brazilian market on the same independent and autonomous basis as before the Transaction, still ensuring transparency of its transactions with the Telefónica Group in Brazil, including disclosing the total amounts and the nature of such transactions in its financial statements.

At December 31, 2013, agreements between the operators of the TIM group controlled by TIM Participações and the operators of the Telefónica group in Brazil were in force in respect of telecommunications services covering interconnection, roaming, site-sharing and co-billing procedures, as well as contracts relating to CSP (long-distance code) entered into on an arm's length basis and the applicable legislation. At December 21, 2013, the receivables and payables arising from these agreements amounted to R\$ 208,988 and R\$ 133,538 respectively (R\$ 178,817 and R\$ 134,878 at December 31, 2012). The amounts charged to income by the Company represent operating revenue and expenses totaling R\$ 1,456,276 and R\$ 1,117,651 (R\$ 1,476.804 and R\$ 1,169,096 at December 31, 2012) respectively.

40 Financial instruments and risk management

Through its subsidiaries, the Company performs non-speculative derivative transactions, to reduce the exchange variation risks and partly eliminate the interest risks involved. These transactions consist exclusively of swap contracts, and accordingly, no exotic or any other kind of derivative instrument is involved.

The Company's financial instruments are presented, through its subsidiaries, in compliance with IAS 32.

Accordingly, the major risk factors to which the Company and its subsidiaries are exposed are as follows:

(i) Exchange variation risks

Exchange variation risks refer to the possibility of subsidiaries incurring losses on unfavorable exchange rate fluctuation, which would increase the outstanding balances of borrowings 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.

At December 31, 2013, the borrowings and financing of the subsidiaries indexed to foreign currency were fully hedged by swap contracts in terms of time and amount. Any gains or losses arising from these swap contracts are charged to earnings of the subsidiaries.

Besides the borrowings taken by the subsidiaries, which involve swap contracts, no other significant 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 TJLP-indexed financing taken by the subsidiary TIM Celular, when these rates are not proportional to that of the Interbank Deposit Certificates (CDI). As of December 31, 2013, the subsidiary TIM Celular has no swap transactions linked to the TJLP.
- the possibility of unfavorable changes in interest rates, which would result in higher financial costs 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, at December 31, 2013, 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 in the 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 the event that they default on payment of their bills. At December 31, 2012 and 2013, 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 in 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. At December 31, 2013 and 2012, 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 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 shown as follows:

| | 2013 | | | 2012 | | |
|----------------------------------|---------|-------------|-----------|---------|-------------|---------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Derivative financial instruments | 246,863 | (44,418) | 202,445 | 188,807 | (78,205) | 110,602 |
| Current portion | 11,969 | (44,418) | (32,449) | 104,712 | (42,061) | 62,651 |
| Non-current portion | 234,894 | | 234,894 | 84,095 | (36,144) | 47,951 |

The consolidated financial derivative instruments with long-term maturities at December 31, 2013 have the following maturity schedule:

| | Assets | Liabilities |
|--------------|---------|-------------|
| 2015 | 12,042 | - |
| 2016 | 140,860 | - |
| 2017 | 22,437 | - |
| 2018 | | |
| 2019 onwards | 59,555 | - |
| | 234,894 | - |

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Consolidated financial assets and liabilities
measured at fair value

| | 2013 | | Total balance |
|---|---------------|----------------|------------------|
| | Level 1 | Level 2 | |
| Assets | | | |
| Financial assets valued at fair value through profit or loss | | | |
| Trading securities | 28,681 | - | 28,681 |
| Derivatives used for hedging purposes | - | 246,863 | 246,863 |
| Total assets | 28,681 | 246,863 | 275,544 |
| Liabilities | | | |
| Financial liabilities valued at fair value through profit or loss | | | |
| Derivatives used for hedging purposes | - | 44,418 | 44,418 |
| Total liabilities | - | 44,418 | 44,418 |
| | 2012 | | Total balance |
| | Level 1 | Level 2 | |
| Assets | | | |
| Financial assets valued at fair value through profit or loss | | | |
| Trading securities | 22,644 | | 22,644 |
| Derivatives used for hedging purposes | | 188,807 | 188,807 |
| Total assets | 22,644 | 188,807 | 211,451 |
| Liabilities | | | |
| Financial liabilities valued at fair value through profit or loss | | | |
| Derivatives used for hedging purposes | - | 78,205 | 78,205 |
| Total liabilities | - | 78,205 | 78,205 |

The fair value of financial instruments traded on 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, equity investments of Bank Deposit Certificates (CDBs) and Repurchases (Repos) classified as trading securities.

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The fair value of financial instruments that are not traded on 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.

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 of financial institutions or dealer quotes 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.

Financial instruments by category

The Company's financial instruments by category can be summarized as follows:

| | Loans and receivables | Assets valued at fair value through profit or loss | Total |
|--|--------------------------|---|-----------|
| December 31, 2013 | | | |
| Assets, according to balance sheet | | | |
| Derivative financial instruments | - | 246,863 | 246,863 |
| Trade accounts receivable and other accounts receivable, excluding prepayments | 3,548,988 | - | 3,548,988 |

| Financial assets valued at fair value through profit or loss | | 28,681 | 28,681 |
|--|--|-----------------------------------|------------|
| Cash and cash equivalents | 5,2587,642 | - | 5,287,642 |
| | 8,836,630 | 275,544 | 9,112,174 |
| | Liabilities valued at fair value through profit or loss | Other financial liabilities | Total |
| December 31, 2013 | | | |
| Liabilities, according to balance sheet | | | |
| Borrowings | - | 4,746,656 | 4,746,656 |
| Derivative financial instruments | 44,418 | | 44,418 |
| Suppliers and other obligations, except legal obligations | - | 5,255,337 | 5,255,337 |
| | 44,418 | 10,001,993 | 10,046,411 |

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In thousands of reais, unless otherwise indicated

| | Loans and Receivables | Assets valued at fair value through profit or loss | Total |
|--|--------------------------|---|-----------|
| December 31, 2012 | | | |
| Assets, according to balance sheet | | | |
| Derivative financial instruments | - | 188,807 | 188,807 |
| Trade accounts receivable and other accounts receivable, excluding prepayments | 3,712,176 | - | 3,712,176 |
| Financial assets valued at fair value through profit or loss | | 22,644 | 22,644 |
| Cash and cash equivalents | 4,429,780 | - | 4,429,780 |
| | 8,141,956 | 211,451 | 8,353,407 |

| | Liabilities valued at fair value through profit or loss | Other financial liabilities | Total |
|--|--|-----------------------------------|-----------|
| December 31, 2012 | | | |
| Liabilities, according to balance sheet | | | |
| Borrowings | - | 4,390,095 | 4,390,095 |
| Derivative financial instruments | 78,205 | - | 78,205 |
| Suppliers and other obligations, excluding legal obligations | - | 4,293,121 | 4,293,121 |
| | 78,205 | 8,683,216 | 8,761,421 |

Capital management

The Company's objectives in managing its capital are to safeguard the Group's on-going ability to provide returns to shareholders and benefits to other stakeholders, in addition to maintaining the ideal capital structure for reducing this cost.

In order to maintain or adjust its capital, the Company may review its dividend payment policy, return capital to the shareholders or, in addition, issue new shares or sell assets to reduce its indebtedness, for example.

The Company's policy for protection
against financial risks - Summary

The Company's policy stipulates the adoption of swap mechanisms against financial risks involved in financing taken in foreign currency, in order to control the exposure to risks related to exchange 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.

At December 31, 2013 and 2012, no type of margin or guarantee applied to transactions with derivative instruments was entered into by the Company and its subsidiaries.

The criteria for selection of financial institutions rely on parameters that take into account the rating provided by renowned rating agencies, the shareholders' equity and the degree of concentration of operations and funds.

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The table below shows the derivative instruments transactions contracted by the subsidiaries and effective at December 31, 2013 and 2012:

December 31, 2013

| Currency | Type of SWAP | Counterparty | | | Total Swap (Active Leg Accrual) | % coverage | Average swap rates | |
|----------|--------------|--------------|------------------------------|------------|---------------------------------|------------|-----------------------|---------------|
| | | DEBT | SWAP | Total debt | | | Active Leg | Passive Leg |
| USD | LIBOR X DI | BEI | Santander, CITI, MS and BOFA | 1,115,324 | 1,115,241 | 100% | LIBOR 6M + 0.77% p.a. | 95.25% do CDI |
| USD | LIBOR X DI | BNP | CITI, BES | 224,395 | 224,395 | 100% | LIBOR 6M + 2.53% p.a. | 95.01% do CDI |
| USD | LIBOR X DI | BOFA | BOFA | 280,822 | 280,822 | 100% | LIBOR 3M + 1.35% p.a. | 102% do CDI |
| USD | PRE X DI | JP Morgan | JP Morgan | 117,704 | 117,704 | 100% | 1.73% p.a. | 101.5% do CDI |
| USD | PRE X DI | Cisco | Santander | 117,768 | 117,768 | 100% | 1.80% p.a. | 93.80% do CDI |

December 31, 2012

| Currency | Type of de SWAP | Counterparty | | | Total Swap (Active leg Accrual) | % coverage | Average swap rates | |
|----------|-----------------|--------------|-----------|------------|---------------------------------|------------|--------------------|----------------|
| | | Debt | SWAP | Total debt | | | Asset side | Liability side |
| R\$ | PRE X DI | BNB | Santander | 38,743 | 5,978 | 15% | 10.54 p.a.% | 69.80% of CDI |

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| | | | | | | | | |
|-----|---------------|--------------|------------------------------------|-----------|---------|------|---|------------------|
| R\$ | TJLP X DI | BNDES | Santander, ITAÚ | 1,894,790 | 55,631 | 3% | TJLP + 4.2% p.a. | 91.43% of CDI |
| USD | LIBOR X DI | BEI | Santander, CITI MS + BOFA | 836,562 | 836,538 | 100% | LIBOR 6M + 0.74% p.a. | 95.02% of CDI |
| USD | LIBOR X DI | BNP | CITI + BES | 244,723 | 244,723 | 100% | LIBOR 6M + 2.53% p.a. | 95.01% of CDI |
| USD | LIBOR X DI | BOFA | BOFA | 244,964 | 244,985 | 100% | (LIBOR 3M + 1.25% p.a.) x 1.18 | 92.00% of CDI |
| USD | PRE X DI | JP Morgan | JP Morgan | 205,280 | 205,444 | 100% | 1.84% p.a. | 92.50% of CDI |

| | Object | Currency | Reference value (Notional) | | | Fair value |
|-----------------------------|--|----------|----------------------------|-----------|-------------|-------------|
| | | | 2013 | 2012 | 2013 | 2012 |
| Fixed interest risk vs. CDI | Part of financing | BRL | - | 2,798 | | |
| Asset position | obtained from | | | | - | 6,008 |
| Liability position | BNB | | | | - | (5,062) |
| Net balance | | | | | - | 946 |
| TJLP risk vs. CDI | Part of financing | BRL | - | 55,052 | | |
| Asset position | obtained from | | | | - | 56,167 |
| Liability position | BNDES | | | | - | (55,069) |
| Net balance | | | | | - | 1,098 |
| USD exchange risk vs. CDI | Full protection against exchange variation risk granted by banks | BRL | 1,614,311 | 1,406,316 | | |
| Asset position | BNP | | | | 1,829,236 | 1,515,769 |
| Liability position | Paribas, BEI, BOFA and JP Morgan | | | | (1,626,790) | (1,407,210) |
| Net balance | | | | | 202,446 | 108,559 |
| Total | | | 1,614,311 | 1,464,166 | 202,446 | 110,603 |

Sensitivity analysis table - Effects of the variation on fair value of the swaps

For identifying possible distortions on 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 | 2013 | Probable Scenario | Possible Scenario | Remote Scenario |
|--|-------------|-------------------|-------------------|-----------------|
| USD-indexed debit (BNP Paribas, BEI, BOFA and JP Morgan) | 1,829,236 | 1,829,236 | 2,310,460 | 2,801,156 |
| Fair value of swap receivable | 1,829,236 | 1,829,236 | 2,310,460 | 2,801,156 |
| Fair value of swap payable | (1,626,790) | (1,626,790) | (1,630,372) | (1,634,242) |
| Net swap exposure | 202,446 | 202,446 | 680,088 | 1,166,914 |

Because the subsidiaries own financial derivative instruments intended only to safeguard their financial debt, the changes in the scenarios are accompanied by the respective protected instrument, thus showing that the exposure effects arising from swaps are reflected in the debt. 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 financial protection. 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 at December 31, 2013 basically rely on assumptions relating to variations of the market interest rates and the variation of the US Dollar 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 i) the variation of CDI and ii) fluctuation of the US Dollar used in swap transactions, with the following percentages and quotations as a result:

| Risk variable | Probable Scenario | Possible Scenario | Remote Scenario |
|---------------|-------------------|-------------------|-----------------|
| CDI | 9.77% | 12.21% | 14.66% |
| USD | 2.34 | 2.93 | 3.51 |

Gains and losses with derivatives in the period

2013

Fixed interest risk vs. CDI

11

| | |
|---------------------------|---------|
| TJLP risk vs. CDI | (119) |
| USD exchange risk vs. CDI | 134,465 |
| Net gains | 134,357 |

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Leverage

The Group's objectives in managing capital are to guarantee the capacity to provide financial returns to its shareholders and benefits to stakeholders, as well as maintain a capital structure to reduce costs.

To maintain or adjust the Group's capital structure Management can review the dividend policy, reimburse the capital to its shareholders, issue new shares or sell assets to reduce, for example, the net debt level.

Aligned with other market participants, the Group monitors, among other indexes, the financial leverage, measured based on the index Net Debt / EBITDA.

The financial leverage indexes as of December 31, 2013 and 2012 are the following:

| | 2013 | 2012 |
|---|-------------|-------------|
| Total borrowings (Note 19 and 40) | 4,544,210 | 4,279,492 |
| LT Amazonas (Note 17) | 322,670 | |
| Less: cash and cash equivalents (Notes 6 and 7) | (5,287,642) | (4,430,590) |
| Net Cash | (420,762) | (151,098) |
| EBITDA (last 12 months) (*) | 5,206,743 | 5,011,958 |
| Financial leverage index | (0.08) | (0.03) |

(*) Reconciliation of Net Income for the year:

| | | |
|------------------------------------|-----------|-----------|
| Net income for the year | 1.505.614 | 1.448.888 |
| Depreciation and amortization | 2.767.870 | 2.688.588 |
| Net Financial Income | 302.720 | 169.890 |
| Income tax and social contribution | 630.539 | 704.592 |
| EBITDA | 5.206.743 | 5.011.958 |

41 Defined benefit pension plans and other post-employment benefits

2013 2012

| | | |
|---|-------|-------|
| PAMEC/active participants' policy and Health Plan | 1,084 | 4,486 |
|---|-------|-------|

The Company and its subsidiaries have defined benefit pension plans and other post-employment benefits particularly as a result of the period of privatization of the Telebrás System. The number of current and former employees that are still entitled to these benefits is extremely low and the amounts involved, whose calculations are based on the criteria set forth in CPC 33 (R1) (IAS 19), are irrelevant in the context of the financial statements.

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42 Management Fees

Key Management includes statutory officers and the Board of Directors. The remuneration to key Management personnel for their services is presented below:

| | 2013 | 2012 |
|------------------------------|--------|--------|
| Short-term employee benefits | 10,755 | 9,226 |
| Shares - based payment | 3,029 | 2,775 |
| | 13,784 | 12,001 |

43 Insurance

The Company and its subsidiaries maintain a policy for monitoring the risks inherent to their operations. Thus, at December 31, 2013, 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 consider 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 | 29,373,216 |
| General Third Party Liability - RCG | 53,000 |
| Vehicles (Executive and Operational Fleets) | 100% of Fipe Table. R\$ 1,000 for Civil Liability Optional (Property Damages and Personal Injury) and R\$ 100 for Pain and Suffering. |

44 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:

| | |
|------|-----------|
| 2014 | 515,901 |
| 2015 | 542,212 |
| 2016 | 566,611 |
| 2017 | 592,109 |
| 2018 | 618,753 |
| | 2,835,586 |

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Table of Contents

(A free translation of the original in Portuguese)

TIM Participações S.A. and Subsidiaries

Notes to the financial statements

At December 31, 2013

In thousands of reais, unless otherwise indicated

| 45 | Expenses by type | | |
|--|------------------|----------------------|----------------------|
| | 2013 | 2012 Reclassified | 2011 Reclassified |
| Expenses by type | | | |
| Cost of services provided and goods sold | (10,822,202) | (9,880,984) | (8,542,639) |
| Selling expenses | (4,911,522) | (4,774,161) | (4,848,512) |
| General and administrative expenses | (1,012,556) | (1,029,943) | (963,394) |
| Other revenue (expenses), net | (736,138) | (755,489) | (663,783) |
| | (17,482,418) | (16,440,577) | (15,018,328) |
| Classified as: | | | |
| Personnel | (831,876) | (729,032) | (632,828) |
| Advertising and publicity | (592,421) | (537,765) | (530,145) |
| Third party services | (3,118,725) | (2,986,376) | (3,025,983) |
| Interconnection | (4,518,927) | (4,659,052) | (4,132,950) |
| Cost of goods sold | (3,350,841) | (2,604,978) | (2,062,552) |
| Depreciation and amortization | (2,767,870) | (2,688,588) | (2,595,968) |
| Impairment of accounts receivable | (240,051) | (250,972) | (231,529) |
| Taxes, fees and contributions | (1,218,304) | (1,225,209) | (1,272,829) |
| Rentals and insurance | (508,236) | (408,078) | (329,889) |
| Provision and contingencies | (279,755) | (236,340) | (150,163) |
| Training | (14,410) | (10,168) | (7,507) |
| Others | (41,002) | (104,019) | (45,984) |
| | (17,482,418) | (16,440,577) | (15,018,328) |

46 Subsequent events

In the meeting held on February 13, 2014, the Board of Directors of TIM Participações S.A. proposed the allocation of R\$ 485.722 for payment of supplementary dividends on income for 2013. Such proposal was submitted for approval on the Company's General Meeting of Shareholders scheduled to April 10, 2014.