

TIM PARTICIPACOES SA
Form 20-F
April 11, 2017

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, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the transition period from _____ to _____

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 001-14491

TIM PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

TIM HOLDING COMPANY

THE FEDERATIVE REPUBLIC OF BRAZIL

(Translation of Registrant's name into English) (Jurisdiction of incorporation or organization)

João Cabral de Melo Neto Avenue, 850 – North Tower – 12th floor
22775-057 Rio de Janeiro, RJ, Brasil
(Address of principal executive offices)

Adrian Calaza
Chief Financial Officer
TIM Participações S.A.
João Cabral de Melo Neto Avenue, 850 – South Tower - 12th floor
22775-057 Rio de Janeiro, RJ, Brazil
Tel: 55 21 4009-4000 / Fax: 55 21 4009-3990
ri@timbrasil.com.br

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

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

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

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

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

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

Title of Class	Number of Shares Outstanding
Common Shares, without par value	2,421,032,479

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

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

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

table of contents

<u>Page</u>		
	<u>PRESENTATION OF INFORMATION</u>	<u>i</u>
	<u>FORWARD LOOKING INFORMATION</u>	<u>ii</u>
	<u>PART I</u>	<u>1</u>
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	<u>1</u>
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	<u>1</u>
<u>Item 3.</u>	<u>Key Information</u>	<u>1</u>
<u>Item 4.</u>	<u>Information on the Company</u>	<u>22</u>
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	<u>68</u>
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	<u>68</u>
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	<u>93</u>
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	<u>104</u>
<u>Item 8.</u>	<u>Financial Information</u>	<u>106</u>
<u>Item 9.</u>	<u>The Offer and Listing</u>	<u>112</u>
<u>Item 10.</u>	<u>Additional Information</u>	<u>117</u>
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>131</u>
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	<u>132</u>
	<u>PART II</u>	<u>134</u>
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>134</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>134</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>	<u>134</u>
<u>Item 16.</u>	<u>[Reserved]</u>	<u>135</u>
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	<u>135</u>
<u>Item 16B.</u>	<u>Code of Ethics</u>	<u>135</u>
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>136</u>
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>136</u>
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>136</u>
<u>Item 16F.</u>	<u>Change in Registrant’s Certifying Accountant</u>	<u>137</u>
<u>Item 16G.</u>	<u>Corporate Governance</u>	<u>137</u>
<u>Item 16H.</u>	<u>Mine Safety Disclosure</u>	<u>138</u>
	<u>PART III</u>	<u>139</u>
<u>Item 17.</u>	<u>Financial Statements</u>	<u>139</u>
<u>Item 18.</u>	<u>Financial Statements</u>	<u>139</u>
<u>Item 19.</u>	<u>Exhibit Index</u>	<u>139</u>
	<u>Technical Glossary</u>	<u>144</u>

Table of Contents

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”), and Intelig Telecomunicações Ltda. (“Intelig”), each a directly or indirectly wholly owned operating subsidiary of the Holding Company and a corporation organized under the laws of the Federative Republic of Brazil.

References in this annual report to the “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.”

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*. The consolidated financial statements included in this annual report were prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As a complement to the CPC and IFRS principles, the Company also applies accounting practices established under Brazilian corporate law and rules issued by the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM, and Anatel. The selected financial information for the Company included in “Item 3. 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 3 to our consolidated financial statements.

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

Solely for the convenience of the reader, we have translated some amounts included in “Item 3A. Key Information—Selected Financial Data” and elsewhere in this annual report from *reais* into U.S. dollars using the commercial selling exchange rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or Central Bank, at December 31, 2016 of R\$3.2591 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.

Table of Contents

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;
- the size of our subscriber base, particularly any increase in our postpaid subscribers;
- development of additional sources of revenue;
- strategy for marketing and operational expansion;
- achieving and maintaining customer satisfaction;
- development of higher profit margin activities, attaining higher margins, and controlling customer acquisition and other costs; and
- capital expenditures forecasts, funding needs and financing resources.

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

- our ability to successfully implement our business strategies;

- weak Brazilian domestic economic conditions and further hindrance of growth due to ongoing corruption investigations nationally;

- an increase in competition from other players and services in the telecommunications industry, particularly 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 consolidation in the Brazilian wireless 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;

- our ability to expand our services while maintaining the quality of services provided;

- system technology failures, which could negatively affect our revenues and reputation;

Table of Contents

our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of political and economic conditions in Brazil and uncertainties in credit and capital markets;

· performance of third party service providers and key suppliers on which we depend;

government policy and changes in the regulatory environment in Brazil, particularly as an economic group classified as having significant market power in some markets;

· our dependence on authorizations granted by the Brazilian government;

· the effect of inflation;

· the effect of exchange rate fluctuations; and

other factors identified or discussed under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

Table of Contents

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 the consolidated balance sheet as of December 31, 2016 and 2015, and the results of operations and cash flows for each of the three years in the period ended December 31, 2016 have been audited by PricewaterhouseCoopers Auditores Independentes. The reports of PricewaterhouseCoopers Auditores Independentes on the consolidated financial statements appear elsewhere in this annual report.

In the first quarter of 2016, the Company identified errors related to revenue recognition for prepaid credits sold by third parties or trading partners in prior years and/or periods. Based on the quantitative and qualitative analysis performed by the Company's management, it was concluded that such adjustments were immaterial in the last three years. However, because of the significance of the cumulative out-of-period adjustment to the annual financial statements as of December 31, 2016, the previous financial statements for the fiscal years ended December 31, 2015 and 2014 were revised.

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,

2016 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2016 (as reported by the Central Bank of R\$3.2591 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.”

Table of Contents

	As of and for the Year Ended December 31,					
	2016	2016	2015	2014	2013	2012
	U.S.\$	R\$	R\$	R\$	R\$	R\$
			(Revised) (1)	(Revised) (1)	(Revised) (1)(2)	(Revised) (3)
	(thousands of <i>reais</i> or U.S. dollars, unless otherwise indicated)					
Income Statement Data:						
Net operating revenue	4,791,940	15,617,413	17,142,265	19,502,116	20,025,629	18,707,487
Cost of service provided and goods sold	(2,360,592)	(7,693,406)	(8,306,857)	(10,083,920)	(10,822,203)	(9,880,984)
Gross profit	2,431,348	7,924,007	8,835,408	9,418,196	9,203,426	8,826,963
Operating revenue (expenses)						
Selling expenses	(1,447,954)	(4,719,029)	(4,822,974)	(5,029,870)	(4,916,395)	(4,779,610)
General and administrative expenses	(386,217)	(1,258,722)	(1,195,277)	(1,130,754)	(1,012,556)	(1,029,943)
Other incomes (expenses), net	(160,185)	(522,060)	434,283	(775,031)	(738,194)	(756,698)
Operating profit before financial income (expense)	436,990	1,424,196	3,251,440	2,482,541	2,536,281	2,260,251
Financial income (expenses)	(126,071)	(410,880)	(250,407)	(280,642)	(290,548)	(154,277)
Income before income tax and social tax contribution	310,918	1,013,316	3,001,033	2,201,898	2,245,733	2,105,974
Income tax and social contribution	(80,663)	(262,889)	(915,591)	(652,795)	(672,775)	(691,988)
Net income for the year	230,255	750,427	2,085,442	1,549,102	1,572,958	1,413,986
Net income per share	0.10	0.31	0.86	0.64	0.65	0.65
Diluted net income per share	0.10	0.31	0.86	0.64	0.65	0.65
Number of shares outstanding:						
Common shares (in millions)	2,421	2,421	2,421	2,421	2,418	2,418
Dividends per share	0.02	0.06	0.19	0.15	0.15	0.14
Balance Sheet Data:						
Property, plant, equipment and intangibles, net	6,663,528	21,717,105	20,626,541	18,237,563	14,643,423	13,555,699
Total assets	10,633,512	34,655,680	35,556,388	32,489,192	28,072,632	26,214,096
Loans and financing	2,061,852	6,719,782	7,926,436	6,754,419	4,746,656	4,390,095
Shareholders' equity	5,273,699	17,187,513	16,577,332	14,952,014	14,221,936	13,392,822
Capital stock	3,027,307	9,866,298	9,866,298	9,866,298	9,839,770	9,839,770
Cash Flow Data:						
Operating Activities:						
Net cash provided by operations	1,531,787	4,992,248	4,278,184	6,441,018	5,269,502	4,965,169
Investing Activities:						
Net cash used in investing activities	(1,303,804)	(4,249,228)	(2,824,082)	(6,863,357)	(3,566,943)	(3,764,726)
Financing Activities:						
Net cash provided (used) in financing activities	(526,291)	(1,715,237)	(586,691)	367,689	(844,697)	(225,918)
	(298,308)	(972,217)	867,411	(54,650)	857,862	1,166,925

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of year	1,871,806	6,100,403	5,232,992	5,287,642	4,429,780	3,262,855
Cash and cash equivalents at end of year	1,573,497	5,128,186	6,100,403	5,232,992	5,287,642	4,429,780

- (1) The revised figures are illustrated in Note 2(e) of our consolidated financial statements included herein and described under the caption “Basis for preparation and disclosure of the financial statements.”
- (2) Figures originally reported on our annual report on Form 20-F issued on April 15, 2014, but with certain account lines revised as mentioned in the Note 2(e) of our consolidated financial statements included herein.
- (3) Figures originally reported on our annual report on Form 20-F issued on April 26, 2013, but with certain account lines revised as mentioned in the Note 2(e) of our consolidated financial statements included herein.

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, with a general weakening demonstrated over recent years. Gross domestic product, or GDP, growth, for example, has been weak in recent years, growing 0.5% in 2014, contracting 3.8% in 2015, and contracting an additional 3.6% in 2016, with a forecast for growth of 0.5% for 2017.

Table of Contents

The Brazilian economic environment is also characterized by significant fluctuations in interest rates, measured by the National Index of Consumer Price (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, and for foreign exchange rates of the *real* against the U.S. dollar and inflation.

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), has varied significantly since 2014, when the rate was 11.75% as of December 31, 2014. In January 2015, the SELIC rate was raised to 12.25%, and then further increased in March 2015 to 12.75% to 13.25% at the end of April 2015, to 13.75% in June 2015, and finally to 14.25% at the end of July 2015, where it remained as of December 31, 2015. During 2016, the SELIC remained stable at 14.25% until October 20, when it dropped to 14.00%. In December 2016, the SELIC rate was decreased to 13.75%.

From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency, the U.S. dollar and other currencies. Last year, the *real* showed significant and consistent appreciation as explained in further detail below in “—Exchange Rates.” Although in 2014, the *real* depreciated against the U.S. dollar by 13.4%, and during 2015, as a result of the poor economic conditions in Brazil, large-scale investigations related to corruption and bribery involving certain politicians, state-owned companies and mainly businessmen from construction companies, the depreciation of the *real* reached 47.0%. This trend was reversed in 2016, when the *real* appreciated 16.5% as a result of the change of government and the recovery of commodities prices. As of December 31, 2016, the *real*-U.S. dollar exchange rate was R\$3.2591 per U.S.\$1.00.

The inflation rate, as measured by the IPCA, was 6.3% in 2016, below the 10.7% in 2015 and 6.4% recorded in 2014, above the 4.5% rate targeted by the Central Bank and the “oscillating” band of plus or minus two percentage points considered acceptable by the Central Bank. Inflation in 2016 was negatively impacted by the rise in the prices of food and health care.

Inflation directly impacts our results of operations as certain of our assets and liabilities are subject to monetary adjustments by reference to indexes that measure or that are impacted by inflation such as IPCA, Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, and SELIC. In 2016, the net impact of inflation adjustments was a loss of R\$207 million and in 2015, was a loss of R\$121 million. The loss in 2016 can be explained by inflation adjustments on a R\$37 million loan and on a R\$2,068 million loan, each from the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, and, to a lesser extent, losses due to inflation adjustment on provisions for the aggregate contingency value of public civil actions and lawsuits pending against us. The loss in 2015 can similarly be explained by inflation adjustments on a R\$69 million loan and on a R\$1,475 million loan, each from BNDES (see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of Funds—Financial Contracts”) and, to a lesser extent, losses due to inflation adjustment on provisions for the aggregate contingency value of public civil actions and lawsuits pending against us (see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings”). 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 or contraction, inflation, interest rates and *real*/U.S. dollar exchange rates in the periods indicated:

	2016	2015	2014
GDP growth (contraction) ⁽¹⁾	(3.6)%	(3.8)%	0.5%
Inflation (IGP-M) ⁽²⁾	7.17%	10.54%	3.69%
Inflation (IPCA) ⁽³⁾	6.29%	10.67%	6.41%
DI Rate ⁽⁴⁾	13.63%	14.14%	11.57%
TJLP ⁽⁵⁾	7.50%	7.00%	5.00%
Appreciation (devaluation) of the <i>real</i> against the U.S. dollar	16.54%	(47.01)%	(13.39)%
Exchange rate (closing)—R\$ per U.S.\$1.00	3.2591	3.9048	2.6562
Average exchange rate—R\$ per U.S.\$1.00	3.4872	3.3329	2.3541

3

Table of Contents

- (1) Brazilian GDP 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, 2016, 2015 and 2014.
- (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, 2016, 2015 and 2014.
- (4) The DI rate is the end of period interbank deposit rate in Brazil.
- (5) Represents the interest rate applied by BNDES in long-term financings (end of the period).
- (6) Average exchange rate of each year.

Sources: BNDES, Central Bank, Bloomberg, FGV and IBGE.

Exchange Rates

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

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and, since that time, the *real*/U.S. dollar exchange rate has fluctuated considerably. In 2012, the *real* depreciated 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. *real*/U.S. dollar depreciation continued through 2013, 2014 and 2015. On December 31, 2013, the period-end *real*/U.S. dollar exchange rate was R\$2.3426 per U.S.\$1.00, a depreciation of 14.64%. In 2014, the *Real*/U.S. dollar exchange rate depreciated 13.39%, and on December 31, 2014, the period-end *real*/U.S. dollar exchange rate was R\$2.6562 per

U.S.\$1.00. In 2015, the *real* continued to depreciate significantly against the U.S. dollar, with the period-end *real*/U.S. dollar exchange rate at R\$3.9048 per U.S.\$1.00 on December 31, 2015, representing a 47.01% depreciation. Throughout 2016, the exchange rate was volatile. When the year opened on January 4, 2016, the *real*/U.S. dollar exchange rate had appreciated to R\$4.0387 per U.S.\$1.00, but mid-year dropped to R\$3.2098 per U.S.\$1.00 on June 30, 2016. However, the *real*/U.S. dollar exchange rate rose again to R\$3.3967 per U.S.\$1.00 by November 30, 2016. On December 31, 2016, the period-end *real*/U.S. dollar exchange rate was R\$3.2591, or a 16.54% appreciation as compared with December 31, 2015.

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	<i>Reais</i> per U.S. dollar			Year End
	High	Low	Average	
2012	2.1121	1.7024	1.9550	2.0435
2013	2.4457	1.9528	2.1605	2.3426
2014	2.7403	2.1974	2.3547	2.6562
2015	4.1949	2.5754	3.3387	3.9048
2016	4.1558	3.1193	3.4833	3.2591

Table of Contents

Month	<i>Reais</i> per U.S. dollar	
	High	Low
October 2016	3.2359	3.1193
November 2016	3.4446	3.2024
December 2016	3.4650	3.2591
January 2017	3.2729	3.1270
February 2017	3.1479	3.0510
March 2017	3.1735	3.0765
April 2017 (through April 7)	3.0923	3.1302

Source: Central Bank/Bloomberg

On April 7, 2017, the selling *real*/dollar exchange rate was R\$3.1302 to US\$1.00. The *real*/dollar exchange rate fluctuates and, therefore, the selling rate at April 7, 2017 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 Brazilian Federal Government, or Federal Government, froze all dividend and capital repatriations that were owed to foreign equity investors. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that similar measures will not be taken by the Federal Government in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to our Business

We may be unable to successfully implement our business strategy.

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:

- 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 players, or OTT. For OTT and mobile virtual network operator, or MVNO, companies (and providers offering content and services on the Internet without owning network infrastructure), which offer telecommunication services to customers by leasing network capacity from traditional network players, without their own network infrastructure;

increased competition in our main markets that could affect the prices we charge for our services and could have an unintended adverse effect on our results;

Table of Contents

- 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;
- system technology failures, which could negatively affect our revenues and reputation;
- the introduction of transformative technologies that could be difficult for us to keep pace with and could cause a significant decrease in our revenues and/or revenues for all mobile telephone carriers;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of political and economic conditions in Brazil and uncertainties in credit and capital markets;
- our ability to attract and retain qualified personnel;
- performance of third party service providers and key suppliers on which we depend, such as any difficulties we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weakness of our suppliers;
- government policy and changes in the regulatory environment in Brazil;
- the effect of exchange rate fluctuations;
- the effect of inflation;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved; and
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

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 time frame described.

We face increasing competition from other players and services, 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 players 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 towards the convergence and substitution of fixed services for mobile, as well as bundling data and voice services. As a result, the cost of maintaining our revenue share may increase 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., or Telefônica Brasil, under the brand name Vivo, Oi Móvel S.A., under the brand name Oi and, recently, Nextel Telecomunicações Ltda., under the brand name Nextel. All PCS providers with national coverage offer third generation, or 3G, and fourth generation, or 4G, mobile telecommunications network technology. Nextel also offers mobile services through its existing trunking network. Possible market consolidation may allow other telecommunications companies to compete more aggressively against us. Additionally, we may face competitors with greater access to financial resources.

We also expect to face increased competition from other services. Technological changes in the telecommunications field, such as the development and roll-out of 4G mobile network technology, and Voice over Internet Protocol, or VOIP (including offers from third party OTT competitors like Skype, Google Talk, FaceTime and WhatsApp), are expected to introduce additional sources of competition in the voice market. OTT 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, but are no longer a

Table of Contents

source of significant revenues for mobile network operators such as TIM, and now SMS revenue is becoming irrelevant. With the growing use of smartphones and tablets in Brazil, an increasing number of customers are using OTT application services as a substitute for traditional voice or SMS communications. As a result of these and other factors, we face a mobile market in which price pressure has been increasing.

OTT application providers also leverage on existing infrastructures and 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 from OTTs. 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.

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 such as these 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.

Rising competition may increase our churn rate and could continue to adversely affect our market share and margins. Our ability to compete successfully will depend on the effectiveness of our marketing efforts and our ability to anticipate and adapt in a timely manner to developments in the industry, including the technological changes and new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. It is difficult to 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 telecommunications market has been subject to consolidation. For example, in September 2014, Telefónica S.A., or Telefónica, entered into a stock purchase agreement to acquire from Vivendi S.A., or Vivendi, all

of the shares of GVT Participações S.A., the controlling shareholder of Global Village Telecom S.A., or GVT. Anatel approved the GVT Acquisition in December 2014 and the Brazilian antitrust authority, Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*), or CADE, approved the same in March 2015. The GVT Acquisition increased Telefónica's share of the Brazilian telecommunications market, and we believe such trend is likely to continue in the industry as players continue to consolidate. 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 also consider engaging in merger or acquisition activity in response to changes in the competitive environment, which could divert resources away from other aspects of our business.

We may face difficulties responding to new telecommunications technologies.

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

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

Table of Contents

the expansion of LTE and 4G technology, and the introduction of the 4.5G network layer and simultaneous management of multiple technology layers, such as GSM, 3G, and 4G through different spectrum bands, which also involves managing the LTE RAN sharing agreement among TIM and two other mobile operator companies (see “Item 4. Information on the Company—B. Business Overview—Site-Sharing and Other Agreements”);

new customer behaviors, particularly migrating services from voice to data, requiring new planning models and accelerating the evolution of communications to increasingly occur on the IP network;

ongoing improvements in the capacity and quality of digital technology available in Brazil; and

continued auction of licenses for the operation of additional 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 operations depend on our ability to efficiently operate our systems that are subject to failure that could affect our business and 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.

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.

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;

- improving our understanding of customer wants and needs;

- 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

Table of Contents

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.

We may experience a decrease in customer base 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 and the maturity of product life cycles. The Brazilian telecommunications market is facing significant changes in the market landscape. Since the Mobile Termination Rates, or MTR (amount paid from one operator to use other network operator to complete a call) is being reduced by Anatel, the cost of on-network calls are becoming closer to off-network. As a consequence, users have less need to maintain multiple SIM cards in order to call users on other operators at an on-network rate, resulting in SIM card consolidation which may decrease our customer base. Additionally, our churn rates are affected by price competition from our competitors and 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 reduce our revenue and possibly increase our cost of operations. Several factors in addition to competitive pressures could influence our subscriber acquisition rate and our churn rate, including network coverage, lack of reliable service and economic conditions in Brazil.

The use of instant messaging applications is causing an impact on operators, both in terms of customer base as well as for service revenue. These messaging applications allow for the replacement of voice usage for data usage and result in a higher concentration of data usage. Voice-data substitution can be a threat for operators since a considerable part of revenues come from voice services. Moreover, WiFi availability can also reduce data traffic from mobile networks.

We face various cyber-security risks that, if not adequately addressed, could have an adverse effect on our business.

We face various cyber-security risks that could result in business losses, including but not limited to contamination (whether intentional or accidental) of our networks and systems by third parties with whom we exchange data, equipment failures, unauthorized access to and loss of confidential customer, employee and/or proprietary data by persons inside or outside of our organization, cyber attacks causing systems degradation or service unavailability, the penetration of our information technology systems and platforms by ill-intentioned third parties, and infiltration of malware (such as computer viruses) into our systems. Cyber attacks against companies have increased in frequency, scope and potential harm in recent years. Further, the perpetrators of cyber attacks are not restricted to particular groups or persons. These attacks may be committed by company employees or third parties operating in any region, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective. We may not be able to successfully protect our operational and information technology systems and platforms against such

threats. Further, as cyber attacks continue to evolve, we may incur significant costs in the attempt to modify or enhance our protective measures or investigate or remediate any vulnerability. The inability to operate our networks and systems as a result of cyber attacks, even for a limited period of time, may result in significant expenses to us and/or a loss of market share to other communications providers. The costs associated with a major cyber attack could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber-security measures and the use of alternate resources, lost revenues from business interruption and litigation. If we are unable to adequately address these cyber-security risks, our operating network and information systems could be compromised, which would have an adverse effect on our business, financial condition and results of operations.

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

Certain of our subsidiaries' existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. The ability of our subsidiaries to meet these financial ratios and tests can be affected by events beyond our and their control, and we cannot assure that they will meet those tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements. As of December 31, 2016, we had approximately R\$8,464 million in

Table of Contents

consolidated outstanding indebtedness, of which 19% 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.

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

Our business exposes us to a variety of lawsuits and other proceedings 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, 2016, we are subject to 6,011 consumer claims classified as probable loss, filed at the judicial and administrative levels. The aggregate contingency value of these claims is R\$105.11 million. See Note 24 to our consolidated financial statements.

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, 2016, we are subject to approximately 2,354 tax-related lawsuits and administrative proceedings with an aggregate value of approximately R\$14.049 billion, including risks related to lawsuits classified as probable and possible loss.

An adverse outcome in, or any settlement of, these or other lawsuits could result in losses and costs to us, with an adverse effect on our business practices and results of operations. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See Notes 3(c) and 23 to our consolidated financial statements.

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 assigned in an unlicensed manner 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.

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, 2016, 2015 and 2014, we made allowances for doubtful accounts in the amounts of R\$266.4 million, R\$230.4 million and R\$248.6 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 1.2%, 0.9% and 0.9% in the years ended December 31, 2016, 2015 and 2014, 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, including in connection with maintaining our own network, for which we may not have made sufficient provisions. Such potential liabilities may involve claims by third party providers that are treated as direct employees as well as claims for secondary liability resulting from work place injury, wage parity and overtime pay complaints. Our financial condition and results of operation may be adversely affected in the event that a material portion of these liabilities are decided against us, for which we have not made provisions.

Table of Contents

Furthermore, recent government announcements and legal proceedings have called into question the ability of public services concessionaires to carry out their operations by outsourcing certain functions. Though no definitive position has been reached by any governmental authority, recent court opinions could set legal precedent that could call into question our ability to outsource certain operations. This may require us to hire as employees certain workers who currently work for us on an outsourced basis, which could adversely affect our results of operations and financial condition.

We depend on key suppliers and certain key inputs and key contractual relationships with other telecommunications providers which are critical to our ability to provide telecommunications services to our customers.

We rely on various vendors to supply network equipment, 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.

Furthermore, the rapid substitution of voice for data usage in general and high growth of broadband in particular may result in a limited supply of equipment essential for the provision of such services, such as data transmission equipment and modems. The restrictions on the number of manufacturers imposed by the Brazilian government for certain inputs, mainly data transmission equipment and modems, pose certain risks, including susceptibility to currency fluctuations and the imposition of customs or other duties for those inputs which are imported. Inputs produced domestically are available from a limited number of domestic suppliers, and accordingly we are highly dependent upon their ability to accurately forecast the domestic demand and manage inventory. The foregoing risks could limit our ability to acquire such inputs in a timely and cost effective manner.

We also rely on certain other telecommunications providers, through contractual agreements with us, to supply key infrastructure and other services, such as EILD, interconnection and co-billing (see “Item 4. Information on the Company—B. Business Overview—Site-Sharing and Other Agreements”). Anatel permits such agreements between telecommunications providers in order to avoid unnecessary duplication of networks and infrastructure, and to lower costs and increase penetration of wireless services in Brazil. In June 2016, one such telecommunications provider that we maintain a contractual relationship with, Oi, filed for judicial reorganization (a form of bankruptcy protection under Brazilian law), acknowledging its inability to sustain its financial obligations. Intense negotiations among credit holders and shareholders are expected, and a change in the controlling shareholders of Oi could lead to a change in the competitive environment.

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.

We use demand forecasts to make investments, however such forecasts may ultimately be inaccurate due to economic volatility and result in lower revenues than expected.

We make certain investments, such as the procurement of materials and the development of our network infrastructure, based on our forecasts of the amount of demand that customers will have for our services at a later date. However, any major changes in the Brazilian economic scenario may affect this demand and therefore our forecasts may turn out to be inaccurate. For example, economic crises may restrict credit to the population, and uncertainties relating to employment may result in a delay in the decision to acquire new products or services. As a result, it is possible that we may make larger investments based on demand forecasts than were necessary given actual demand at the relevant time, which may directly affect our cash flow.

Unanticipated improvements in economic conditions may have the opposite effect and equally pose a risk. For example, an increase in demand not accompanied by our investment in improved infrastructure may result in a possible loss of opportunity to increase our revenue or result in the degradation of the quality of our services.

Table of Contents

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.

Under Anatel's General Plan for Competition Goals (*Plano Geral de Metas de Competição*), or PGMC, we have been classified as having significant market power in the following relevant markets: (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 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.

On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, as well as the termination of calls on local fixed line networks, or TU-RL, and the Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linhas Dedicadas*), or EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as Bottom-Up Long-Run Incremental Cost, or BU-LRIC, which takes into consideration all long-run incremental costs, updated to current values, of providing a particular service and the unit costs of such service based on an efficient network considering the existing regulatory obligations, is applied (2019 for VU-M and TU-RL, and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016. It is our position that Anatel's decision to establish VU-M rates – a price related to the provision of telecommunications services in the private regime – based on a cost model does not comply with Brazilian law. Accordingly, we filed an annulment application with Anatel in connection with the July 2014 resolution, which was rejected by Anatel. After reevaluating our strategy due to new commercial conditions, we decided not to pursue judicial recourse for that matter.

Because of our classification as having significant market power in the national roaming market, we must also offer roaming services to other mobile providers without significant market power at the rates approved by Anatel. 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.

PGMC is currently under review by Anatel. As a result of such process, the agency may eliminate or create new relevant markets, as well as modify our classification as having significant market power in the applicable markets.

As a mobile telecommunications provider, we are subject to extensive regulatory obligations in the performance of our activities which may limit our flexibility in responding to market conditions, competition and changes in our cost structure or with which we may be unable to comply.

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;

Table of Contents

- quality standards;
- consumer rights;
- interconnection and settlement arrangements; and
- coverage obligations.

In addition to the rules set forth by Anatel, we are subject to compliance with various legal and regulatory obligations, including, but not limited to, obligations arising from the following:

- PCS authorizations under which we operate our cellular telecommunications business;
- fixed authorizations (local, national long distance, international long distance and multimedia service) under which we operate our telecommunications business;
- the Consumer Defense Code; and
- the General Telecommunications Law (Law No. 9,472/97, as amended).

In addition, like other companies, we are also subject to national and international anti-corruption laws. 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, as administrative proceedings for breach of quality standards have been brought by Anatel in the past, we cannot provide any assurance that we are in full compliance with our service quality 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 as part of the measures, adopted to improve the quality of services provided by all mobile operators to the population overall.

As recent example of how sudden and unilateral government action can affect our industry, mobile telecommunications operators have received judicial orders since December 2015 through the date of this annual report to block the application *WhatsApp* nationally for various periods of time as a preventative measure in connection with criminal suits in progress.

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. Moreover, compliance with this extensive regulation, the conditions imposed by our authorization to provide telecommunication services and other governmental action may limit our flexibility in responding to market conditions, competition and changes in our cost structure. 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.

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 accessibility, data accessibility, voice drop, data drop, data throughput, 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, restrictions on our sales and, in an extreme situation, the termination of our authorizations in the event of material non-compliance.

Our radio frequency, or RF, 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

Table of Contents

calculated as including revenues derived from interconnection as well as additional facilities and conveniences. As a result, we are currently disputing these RF 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.

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 2014, some of which could have an adverse effect on our results. As noted above, in July 2014, Anatel established a fully allocated cost model for reference rates by allocating the various service costs to determine a basic price, effective as of February 2016. Accordingly these regulations can have an adverse effect on our results of operations because (1) our interconnection charges will likely continue to drop significantly, thereby reducing our revenues, and (2) Anatel may allow more favorable prices for operators without significant market power.

Actual or perceived health risks or other problems relating to mobile telecommunications technology could lead to litigation or decreased mobile communications usage, which could harm us and the mobile industry as a whole.

The effects of, and any damage caused by, exposure to electromagnetic fields has been and still is the subject of careful evaluation 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.

Moreover, media and other reports have suggested that RF emissions from wireless handsets and base stations may cause health problems.

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. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation.

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. 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.

Anatel Resolution No. 303 limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz, and Law No. 11,934 establishes 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. In 2015, Anatel established a computerized system called Mosaic in order to store the measurement reports and better assess the level of human exposure to electromagnetic fields. Anatel also began working with Brazilian telecommunications operators in January 2015 to ensure their required registered reports were being stored in Mosaic. TIM met its 2016 required reporting levels, submitting 16,007 registered reports.

Any of these or any other additional regulations could adversely affect our business, financial condition and results of operations. Government authorities could also 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. We cannot assure you that further medical research and studies will refute a link between the mobile technology in question and these health concerns.

Table of Contents

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 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

Risks related to Brazilian economic and political conditions may negatively affect our business.

Political conditions in Brazil may affect the confidence of investors and the public in general, as well as the development of the economy. 2016 was marked by an unstable political scenario evidenced by widespread protests and ongoing investigations into allegations of corruption in state-controlled enterprises that contributed to the decline of the confidence of investors and the public in general.

Some relevant Brazilian companies are facing investigations by the CVM, the U.S. Securities and Exchange Commission, or the SEC, the Brazilian Federal Police and the Brazilian Federal Prosecutor’s Office, in connection with corruption allegations, or the “Lava Jato” investigations. Depending on the duration, outcome and possible expansion of such investigations, the companies involved may face downgrades from rating agencies, funding restrictions and a reduction in their revenues. Given the relatively significant weight of the companies cited in the investigation, this could have an adverse effect on Brazil’s growth prospects in the near to medium term. Negative effects on a number of companies may also impact the level of investment in infrastructure in Brazil, which may lead

to lower economic growth in the near to medium term.

In 2016, after the legal and administrative process for the impeachment, Brazil's Senate removed President Dilma Rousseff from office on August 31, 2016, for infringing budgetary laws. Michel Temer, the former vice president, who has run Brazil since Ms. Rousseff's suspension in May, was sworn in by Senate to serve out the remainder of the presidential term until 2018.

However, the resolution of the political and economic crisis in Brazil still depends on the outcome of Operation "Lava Jato" and approval of reforms that are expected to be promoted by the new president. We cannot predict which policies the Brazilian government may adopt or change or the effect that any such policies might have on our business and on the Brazilian economy. The Brazilian government may be subject to internal pressure to change its current macroeconomic policies, including its fiscal policy, in order to achieve higher rates of economic growth and/or meet its fiscal targets. During the past years, the Central Bank has maintained a tight monetary policy with high interest rates, thus restricting the availability of credit and reducing the economic growth to control inflation. Any such new policies or changes to current policies may have a material adverse effect on our business, results of operations and financial condition.

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,

Table of Contents

and cannot predict what measures or policies the Brazilian government may take or adopt in the future. Our business, financial condition, revenues, results of operations, prospects and the trading price of our securities may be adversely affected by changes in government policies and regulations, as well as other factors, such as:

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

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

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

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business and over 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. The IOF tax rate related to international loans entered into in Brazil by foreign banks and companies remained at 6% in 2012, however the maturity requirement 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 requirement at 360 days. On June 4, 2014, the minimum maturity for such international loans subject to the IOF was reduced from 360 to 180 days, maintaining the rate of 6% in 2015.

Table of Contents

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 Resolution 2,689, of January 26, 2000, as amended, or Resolution CMN 2,689, of the National Monetary Council (*Conselho Monetário Nacional*), or CMN, in the Brazilian financial and capital markets, including an investment in our common shares.

Since December 24, 2013, the transfer of shares that are listed on a stock exchange located in Brazil with the specific purpose of backing the issuance of depositary receipts traded abroad is subject to a 0% IOF rate. From October 8, 2014, operations of trading Fixed Income Index Fund quotas on stock exchanges or organized over-the-counter market are subject to a 0% rate of IOF.

On July 1, 2015, Decree No. 8,426 came into effect, which restored PIS and COFINS on financial revenues at a cumulative rate of 4.65% (previously set at 0% by Decree No. 5,442/2005). From that date, all financial revenues became taxable, except for revenues related to foreign exchange variations of exportation of goods and services, revenues resulting from foreign exchange variations of obligations undertaken by the company, including loans and financing and revenues related to hedging transactions on stock exchange values, and revenues from commodities and futures exchanges or over the counter transactions.

In addition, Law No. 13,241, published on December 31, 2015, suspended the 0% PIS and COFINS rate on the sale of goods such as smartphones and handsets, which starting from January 1, 2016 were set back to the rate of 7.6% of COFINS and 1.65% for PIS.

Since December 2015, the principal tax applicable to goods and telecommunication services (*Imposto sobre Circulação de Mercadorias e Serviços*), or ICMS, rates were increased in some Brazilian states due to local legislation to an average of 3% and 1%, respectively.

Provisional Measure No. 687, published on August 18, 2015 (and converted into Law No. 13,196, which was published on December 2, 2015) authorized the monetary adjustment, based on the IPCA, of the Contribution to the Development of the National Film Industry (*Contribuição para o Desenvolvimento da Indústria Cinematográfica Nacional*), or CONDECINE, which is a tax levied on telecommunications services with the objective of promoting the Brazilian audiovisual industry.

Further changes in tax regulations could impact our financial assets and liabilities as well as our pricing, which could have a material adverse effect on our business, financial condition and results of operations.

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.

Uncertainty regarding certain government fiscal measures which may be taken to counteract the current political instability could contribute to greater inflation over the course of 2017. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Inflation may increase in Brazil in the future. Periods of higher inflation may decrease the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. 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

Table of Contents

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 and interest rate fluctuation may have an adverse effect on our business and the market prices of our shares or the ADSs.

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.

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 is regularly revised, either positively or negatively, if 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% and as of December 31, 2014, the SELIC rate was 11.75%. The SELIC rate was again revised upward throughout 2015: in January 2015, the SELIC rate was raised to 12.25%, and then further increased in March 2015 to 12.75% to 13.25% at the end of April 2015, to 13.75% in June 2015, and finally to 14.25% at the end of July 2015, where it remained as of December 31, 2015. During the first quarter of 2016, the SELIC remained stable at 14.25% until October 20, when it dropped to 14.00% and to 13.75% in December 2016. During 2017, the SELIC dropped to 13.00% in January and to 12.25% in February.

At December 31, 2016, 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\$ 2,2547 million tied to the TJLP, R\$1,488 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 R\$37 million tied to UMIPCA (*Unidade Monetária IPCA do BNDES*) and R\$445 million tied to fixed interest rates and R\$2,069 million tied to SELIC. 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.

The effects of the weak domestic economy 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, domestic economic conditions are weak. The inflation rate, as measured by IPCA, reached 6.3% in 2016. Inflation directly impacts our results of operations as a result of certain of our assets and liabilities being subject to inflation adjustment, and if inflation rises, disposable income of families may decrease in real terms, leading to lack of purchasing power among our customer base. Brazilian GDP contracted by 3.6% in 2016, the second consecutive decrease, and there is significantly reduced liquidity in the domestic capital and lending markets. In response to such tighter credit,

Table of Contents

negative financial news or declines in income or asset values, consumers and businesses may postpone spending, 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.

We may be impacted by volatility in the global financial markets.

We are susceptible to swings in global economic conditions, typified most recently by difficult credit and liquidity conditions and disruptions leading to greater volatility. The global economy has largely recovered from the crisis of 2007, however markets remain subject to ongoing volatility factors including interest rate divergence, geopolitical events, and global growth expectations, and there is no assurance that similar conditions will not arise again. In the long term, as a consequence, global investor confidence may remain low and credit may remain relatively lacking. Hence, additional volatility in the global financial markets may occur.

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.

Developments and the perception of risk in other countries may adversely affect the Brazilian economy and market price of Brazilian issuers' securities.

The market value of securities of Brazilian issuers is affected by economic and market conditions in other countries, including the United States, European countries, as well as in other Latin American and emerging market countries. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Additionally, crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including our securities. This could adversely affect the market price of our securities, restrict our access to capital markets and compromise our ability to finance our operations in the future on favorable terms, or at all.

In the recent past, there was an increase in volatility in all Brazilian markets due to, among other factors, uncertainties about how monetary policy adjustments in the United States would affect the international financial markets, the increasing risk aversion to emerging market countries, and uncertainties regarding Brazilian macroeconomic and political conditions. These uncertainties adversely affected us and the market value of our securities.

In addition, we continue to be exposed to disruptions and volatility in the global financial markets because of their effects on the financial and economic environment, particularly in Brazil, such as a slowdown in the economy, an increase in the unemployment rate, a decrease in the purchasing power of consumers and the lack of credit availability.

Disruption or volatility in the global financial markets could further increase negative effects on the financial and economic environment in Brazil, which could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our Commons Shares and the ADSs

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's single largest shareholder is Vivendi, which is able to exercise significant influence over Telecom Italia. 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.

Table of Contents

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

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

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

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

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our ADSs or common shares in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether to file such a registration statement. We cannot assure holders of our ADSs or common shares in the United States that we will file a registration statement 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. See “—A. Selected Financial Data—Exchange Rates” for information regarding exchange rates for the Brazilian *real*.

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 17% (as amended by National Treasury Ordinance No. 488 of November 1, 2014; prior to this date, the maximum rate for “tax haven” qualification purposes was 20%)). Although

Table of Contents

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 CMN 2,689, 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, N.A., or J.P. Morgan, 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.

Brazilian law allows for the Brazilian government to impose temporary restrictions, whenever there is a significant imbalance in Brazil’s balance of payments or a significant possibility that such imbalance will exist, on the remittance

to foreign investors of the proceeds of their investments in Brazil, as well as on the conversion of the *real* into foreign currencies. The Brazilian government last restrictions on capital outflows for a six-month period at the end of 1989 and early 1990, freezing all dividend and capital repatriations that were owed to foreign equity investors. The Brazilian government may in the future restrict companies from paying amounts denominated in foreign currency or require that any such payment be made in *reais*.

If similar restrictions are introduced in the future, they would likely have an adverse effect on the market price of our shares and ADSs. Such restrictions could hinder or prevent the holders of our shares or the custodian of our shares in Brazil, J.P. Morgan, as depositary, from remitting dividends abroad.

A more restrictive policy could also increase the cost of servicing, and thereby reduce our ability to pay, our foreign currency-denominated debt obligations and other liabilities. As of December 31, 2016, our foreign-currency denominated debt was R\$1,623 million and represented 19% of our consolidated indebtedness. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our common shares, shares and ADSs.

Table of Contents

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 João Cabral de Melo Neto Avenue, 850 – North Tower – 12th floor, 22775-055 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 Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

Historical Background

In July 1998, as part of the privatization of Telebrás, the Brazilian state-owned telecommunications monopoly, the Federal Government sold substantially all its shares of the 12 holding companies into which Telebrás had initially been broken up, including its shares of Tele Sudeste Celular Participações S.A., or TSU, and Tele Nordeste Celular Participações S.A., or TND. Following a series of acquisitions, corporate reorganizations and corporate name changes, TSU and TND merged to form TIM Participações in 2004.

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 (which began operating in Brazil in 1998 as Telecom Italia Mobile) through its wholly owned subsidiary, TIM Brasil, formed in 2002 as the holding company of Telecom Italia's operating companies in Brazil. In turn, the single largest shareholder of Telecom Italia is Vivendi, which is able to exercise significant influence over Telecom Italia. 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 2009, the acquisition of Holdco Participações LTDA, holder at the time of 100% of Intelig's capital, was approved and Intelig became a wholly-owned subsidiary of TIM after this transaction. Our acquisition of Intelig brought material advantages through significant synergies with its network, such as its metropolitan optimal fiber network and its large backbone that allowed us to accelerate the development of our 3G network and generate significant operational cost savings

In 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, or the AES Atimus Acquisition. In connection with the acquisition, Eletropaulo Telecomunicações changed its corporate name to TIM Fiber SP Ltda., or TIM Fiber SP, and AES RJ changed its corporate name to TIM Fiber RJ S.A., or TIM Fiber RJ, and we call this business, collectively, TIM Fiber.

In accordance with the reorganization of TIM Fiber, TIM Fiber RJ and TIM Fiber SP were merged into TIM Celular in 2012, which owns and operates an extensive fiber optic network in metropolitan São Paulo and Rio de Janeiro. 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.

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 segment of the BM&FBOVESPA in 2011. In order to join the Novo Mercado, we are required to adhere to heightened requirements relating to corporate governance and the disclosure of information to the market and we are not permitted to issue preferred shares, participation bonuses or any kind of shares with restricted voting rights. From August 3, 2011, our preferred shares ceased to trade and 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 preferred shares ceased to trade on the NYSE and our ADSs representing five

Table of Contents

common shares instead of ten preferred shares commenced trading on the NYSE. See “Item 9. The Offer and Listing—A. Offer and Listing Details.”

2016 Important Events

Towers Sale and Leaseback

In November 2014 and January 2015, TIM Celular entered into sale and leaseback transaction, or the ATC Sale-Leaseback Transaction, pursuant to which it executed a Sales Agreement, or the Sales Agreement, and a Master Lease Agreement, or MLA, with American Tower do Brasil Cessão de Infraestruturas Ltda., or ATC. Under the Sales Agreement, TIM Celular can sell up to 6,481 telecommunications towers owned by it for approximately R\$3 billion, and under the MLA TIM Celular can then lease back part of the space on these towers for a period of 20 years from the date of transfer of each tower, with monthly rental prices depending on the type of tower (greenfield or rooftop). The ATC Sale-Leaseback Transaction will benefit the Company’s operating and financial capacity and we expect it will allow the Company to expand investments and improve quality of services.

The Sales Agreement provides for the towers to be transferred in tranches to ATC as conditions precedent are met. A total of five tranches of transfers were made, three in 2015, April 29, September 30 and December 16 and two in 2016, June 9 and December 20. As a result of these five tranches of transfers, we transferred a total of 5,819 towers to ATC, and received a total of R\$2,632 million in cash. The gain on the portion of the assets effectively sold, amounting to R\$44 million (net of transaction costs), was recognized as other operating income for financial year 2016, while the gain on the portion of the towers subject to sale and leaseback, amounting to R\$70.9 million (net of transaction costs), was deferred over the lease term (20 year) per the MLA. The discount rate used in the ATC Sale-Leaseback Transaction was determined based on observable market transactions that the lessee would have to pay in a similar lease or borrowing arrangement. The discount rate applied in each tranche is described in Note 15 to our consolidated financial statements.

2016 mobile market developments

According to Anatel, the Brazilian mobile market reached 244 million lines nationwide at the end of 2016, corresponding to a penetration ratio of 118%, compared to 125.7% in 2015, for an annual contraction rate of 5.3%, compared to a 8.2% contraction rate in 2015. Brazil is one of the largest mobile telephony markets in the world. Although the Brazilian telecommunications market’s prepaid customer base has contracted by 10.8% (or 20 million lines) over the course of 2016, to 165 million lines, it still continues to represent the market’s largest component, constituting 67.5% of total subscriber base as of December 31, 2016, as compared to 71.6% as of December 31, 2015. The significant reduction in the overall number of prepaid users is mainly due to macroeconomic pressures,

acceleration in users consolidating multiple SIM cards to a single one, high penetration of mobile service and the rapid substitution of voice for data usage, resulting in a decrease in the so-called “community effect”, where consumers value a telecommunications system more as more users adopt it. The postpaid business, however, reached 79 million lines in 2016, a 8.3% increase over 2015.

Capital Expenditures

The majority of our capital expenditures in 2014 related to our investment of approximately R\$2.9 billion in the acquisition of a license to operate in the 700 MHz spectrum for 4G mobile technology and R\$3.7 billion related to improvements in network infrastructure. Our principal capital expenditures in 2015 totaled R\$4.7 billion, of which 92.4% was dedicated to network infrastructure. In 2016, our capital expenditures totaled R\$4.5 billion, a decrease of 5.5% when compared to 2015 which can be explained by the negotiations made with vendors to reduce supply costs as well as project optimization efforts. For a detailed breakdown of our capital expenditures in 2014, 2015 and 2016, as well as the total amount of the same each year, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Uses of Funds—Material Capital Expenditures.”

During 2017, 2018 and 2019, 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. See “—B. Business Overview—Competitive Strengths—High-quality services” and “—B. Business Overview—Our Strategy—Construction of a unique infrastructure network in the Brazilian market and improving our network” for further information on the types and geographical distribution of these ongoing infrastructure investments.

Table of Contents

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. In 2016, a tougher macroeconomic environment affected the telecommunications industry as a whole, and contributed to the first year of overall customer base reduction. As of December 31, 2016, there were approximately 244.0 million mobile lines, representing approximately 118% of the population, compared to approximately 257.8 and 280.7 million mobile lines representing approximately 125.7% and 138.0% of the population in 2015 and 2014. As is the case throughout most of Latin America, the Brazilian mobile telecommunications market is characterized by a large number of prepaid customers, but as previously mentioned, this trend is changing as a result of macroeconomic pressures, an acceleration in users consolidating multiple SIM cards to a single one, a high penetration of mobile service, and the rapid substitution of voice for data usage, resulting in an overall reduction in the total number of prepaid base users and a decrease in the so-called “community effect” where consumers value a telecommunications system more as more users adopt it. According to Anatel, at the end of 2014, 2015 and 2016, approximately 75.8%, 71.6% and 67.5%, respectively, of mobile lines were prepaid and 24.2%, 28.4% and 32.5%, respectively, were postpaid. The postpaid business reached 79 million lines in 2016, a 8.3% increase over 2015.

Our Business

We are the second largest provider of mobile telecommunication services in Brazil based on the number of phone lines, with 63 million lines and a market share of 26.0% in 2016, as compared to 66 million lines and market share of 25.7% in 2015, based on data from Anatel. In the year ended December 31, 2016, we lost 2.82 million net lines, compared to a net loss of 9.49 million lines in the year ended December 31, 2015. Through our subsidiaries in various telecommunications markets throughout Brazil, we operate mobile, fixed and long distance telephony, data transmission and ultra-broadband (speeds of more than 34 MB per second, or Mbps) services. For the year ended December 31, 2016, our gross service revenue was R\$21.4 billion, a 7.6% decrease from the year ended December 31, 2015, in comparison to a 5.7% decrease in gross service revenue from 2014 to 2015.

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 3.4 thousand municipalities. We offer extensive data coverage throughout Brazil with our GPRS technology, covering 100% of our coverage area and our EDGE technology reached almost 95% of our coverage area, in addition to our sophisticated 3G and 4G network covering approximately 89% and 74%, respectively, of the urban population of Brazil. Our international roaming agreements include more than 450 networks available in more than 205 destinations on six continents

(including Antarctica). Our fiber network extends from northern to southern Brazil, with an extensive wide area network, or backbone, of approximately 76,000 kilometers, and metropolitan area networks, or backhaul. Our fiber optic network has a unique capacity to offer high-quality mobile ultra-broadband service, available through our TIM Live network in the Rio de Janeiro and São Paulo metropolitan regions. In 2016, we continued to connect our antennas with our fiber optic network, representing an increase of 9% compared to the end of 2015, enabling an increase in data transmission capacity. This is a key project for the Company which enables us to deliver a high-performance data experience to our users. In 2013, we completed the LT Amazonas project, our long distance fiber optic network 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 have a selective subsidy policy for handset and accessories sales, which helps avoid pressure on margins and costs as we grow.

Table of Contents

We believe our net investment of approximately R\$4.5 billion in 2016, a 5.5% decrease over 2015 and of which approximately 85% went towards infrastructure, is indicative of our commitment to enhancing our ability to provide services of the highest quality and meet the demand for voice traffic in Brazil. According to our strategic plan we disclosed to the market on February 2, 2017, or the 2017-2019 Industrial Plan, we plan on investing almost R\$12 billion in Brazil between 2017 and 2019, with the majority of this amount directed to network development.

As of December 31, 2016, we had more than 10.8 thousand points of sale through premium shops and dealers (exclusive or multi-brand) and consolidated partnerships with large retail chains. This figure includes 175 of our own stores. In addition to these retail stores, our customers have access to prepaid phone services through supermarkets, newsstands, and other small retailers as alternative channels to access our products and services, totaling more than 332 thousand points of sale throughout Brazil.

For the corporate market, we have more than 550 third-party business partners focused on serving small and medium companies and a direct sales force team of 94 employees focused on large companies.

In order to serve our customer base of over 63 million customers, we maintain twelve customer care centers, two of our own and ten outsourced, comprising around fourteen thousand customer service representatives. 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.

Competitive Strengths

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

High quality services. Since national coverage and quality had improved quite substantially over the last few years, Anatel has shifted its focus in 2016. The prior focus was service quality from a broader state-oriented perspective and now, Anatel is taking a local perspective, concentrating its efforts on smaller geographic areas and specially those where service is still considered poor.

In accordance with Anatel's directions to monitor and evaluate quality on more specific geographic areas, we will disclose our quality indicators based on the number of cities – rather than states – within Anatel's targets. Such indicators are expected to be more assertive and better reflect customer experience.

TIM posted solid improvements in Anatel's voice quality metrics. Importantly, the Company has been able to sustain its positive results in data indicators (3G/4G) despite the rapid expansion of our coverage in 2016, especially in 4G where we are the leaders in the number of cities covered.

Regarding Anatel's metrics for instant speed, or SMP10, and average speed, or SMP11, we highlight that both indicators remain stable and above Anatel's target, guaranteeing a positive customer experience when using data. In a scenario of strong data traffic increase (+56% Year over Year, or YoY, in 2016), such results also indicate strong resilience of our network

TIM has historically recorded the fewest number of customer complaints registered with the Brazilian Consumer Protection and Defense Authority, or PROCON, integrated in the National Information Integration System, or SINDEC. The TIM economic group has the fewest registered complaints per one thousands customers until October, the date of the last official report disclosed, having received 59% fewer complaints than the economic group with the largest number of complaints. According to an official report by the National Consumer Bureau (*Secretaria Nacional do Consumidor*), or SENACON, over the course of 2016, the TIM economic group satisfactorily resolved 81% of Preliminary Investigation Letters, or CIPs, and 76% of Justified Complaints, or RFs, submitted by PROCON. These performance rankings are commensurate with our 2015 results.

TIM Live was recognized as the best internet connection in fixed broadband market by a satisfaction survey published in March by Anatel. The survey was conducted in the second half of 2015. Reinforcing our innovative approach and focus on quality, TIM Live was also the Brazilian leader of Netflix's ISP Speed Index in October, the date of the last official report, which measures the performance of internet service providers in different countries. In the mobile market, TIM has the highest penetration of coverage by 4G technology, having reached more than 1,200 cities and around 74% of the urban population in Brazil by the end of 2016.

Table of Contents

We also continue to provide high quality services by means of our continued investment in infrastructure. Such investments have been achieved organically, including through building long distance networks and establishing our metropolitan fiber optic network, with more than 5,000 sites connected to fiber in December 2016, and by means of acquisition of additional bandwidths including the 700 MHz bandwidth nationally. In December 2015, when Anatel auctioned left over radiofrequencies in the 1,800 MHz, 1,900 MHz and 2,500 MHz bands, TIM was only allowed to participate in batches of the 2,500 MHz band which had originally been auctioned in 2012, and for which we bid for some lots. We were classified as first-ranked bidder for the acquisition of the lots for Recife and its metropolitan region, in the state of Pernambuco, and for Curitiba and metropolitan region, in the state of Paraná, based on our bids which totaled R\$57.5 million

The result was approved by Anatel's directing council on June 1, 2016 and the authorization terms were signed on July 26, 2016. As of December 31, 2016 as compared to December 31, 2015, we achieved a 51% increase in volume of e-NodeB and 17% increase in volume of NodeB, the equipment responsible for adding, respectively, 4G and 3G data traffic capacity to an antenna, and installed and had 441 new sites connected to fiber optics, an increase of 9%. During the period from December 31, 2015 to December 31, 2016, our 4G network coverage grew by more than three times in terms of the number of cities covered, while our 3G network coverage grew by more than 54% over the same period, resulting in our total coverage reaching almost 95% of Brazil's urban population.

We have also added to our network infrastructure by means of inorganic growth historically, for example, through the acquisition of assets such as Intelig and AES Atimus (later known as TIM Fiber and now TIM Celular). The acquisition of Intelig 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, 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 positioned us well, compared to our competitors, to capture broadband Internet market share. Investing in fiber optics in this way allows us to provide high quality services to our customers. These acquisitions also enabled a reduction of infrastructure rental costs, while helping us to obtain significant synergies related to our existing fiber optic network.

Throughout 2016, we also expanded the installation of "Biosites" across Brazil, a cellular antenna shaped like a lamp post and designed to accommodate 3G and/or 4G transmission equipment, illustrating our focus on seeking innovative infrastructure alternatives to improve the quality of and our customers' satisfaction with our services. Each Biosite is a multifunctional device, allowing not only for the installation of new 3G and/or 4G stations, but also modernizing streetlights in cities and reducing visual clutter, since the cellular antennas and their necessary equipment are self-contained within the post itself, without the need for external or auxiliary engineering structure.

We are also better able to provide high quality services due to our strong relationship with our suppliers. We operate a system for information technology vendor management in order to improve the commitment of our suppliers. As a result of this approach, we benefit from enhancements like (i) better accountability of end-to-end 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.

Strong brand associated with innovation. We believe that 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 (rather than per minute) offers in the Brazilian market (Infinity Pré), followed by a prepaid daily Internet package delivering a limited traffic allowance (Infinity Web) and a combined daily package of Internet and text messages (Infinity Web + Torpedo). We also introduced the concept of equalization of prices for local calls and long distance within our network and, in the postpaid business, we launched the concept of unlimited calls within the TIM network (TIM Liberty). TIM launched the first daily prepaid service option (a promotion for customers that have the Infinity plan), data package sharing among multiple devices. TIM also launched plans that allowed voice minutes to be used for

Table of Contents

calls to any operator, anywhere in Brazil. We believe the subsequent development of other plans based on these concepts strengthen our leadership position compared to our competitors in terms of innovation.

Our mobile phone plans have transformed the mobile telecommunications market in Brazil, increasing voice traffic and long distance calls in Brazil and accelerating the growing trend in the substitution of fixed-line telephone services for mobile telephone services. The current path of innovation is to completely eliminate the difference between on-network and off-network calls, and also the market shift from a voice plan approach to a data-centric plan approach.

On April 2016, TIM adopted a new institutional campaign launched by the Telecom Italia group, featuring the launch of a new logo and a new slogan “Evoluir é fazer diferente” (to evolve is to do things differently). The new slogan represents a new market positioning and points to different form in facing the Company’s relationship with customers. This transformation is part of a path that the Company has taken, which focus on quality and better user experience. TIM’s new positioning seeks to fulfill consumers’ needs by understanding what they value and earn their trust based in three pillars: (i) innovation, which is already in the company’s DNA and will continue as a priority, with new plans, offers, partnerships and technologies; (ii) quality, as TIM has worked to become a leader in 4G coverage and maintain strong investments in infrastructure to deliver the best to its customers and be prepared for the future; (iii) user experience, which, in addition to the two other pillars, is important to establish a new relationship with customers and act to give every client the best caring experience, great services and a transparent relationship with the company.

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. As part of our listing on the *Novo Mercado*, we are required to adhere to heightened requirements relating to corporate governance and the disclosure of information to the market. As part of our strong commitment to these principles, we made our 2016 financial year financial results meetings available by teleconference, smartphone and tablet in addition to computer. 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 and the BM&FBOVESPA Tag Along Stock Index, comprised of companies that have committed to adopt better co-sale protection to minority shareholders, have actively traded in 30% of the trading sessions and do not constitute a penny stock. In 2016, we were listed for the ninth consecutive year as 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 Greenhouse Gas Protocol, the program of the Center for Sustainability Studies of the FGV, which aims to foster corporate responsibility with respect to greenhouse gas emissions.

We furthered our commitment to transparency when, in the third quarter of 2014, we began making our financial results meetings open to investors and journalists, as well as by teleconference, computer, smartphone and tablet.

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.

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:

Table of Contents

Our strategic goals can be divided into 4 pillars: infrastructure, offer/commercial approach, customer experience and efficiency. TIM's infrastructure strategy is to be the leader in 4G technology in order to guarantee our service quality, particularly in mobile broadband. Likewise, we want to eliminate completely our coverage gap in 3G and selectively make use of 4G technology, or to address the residential broadband market with our wireless 4G broadband network. With respect to our offer and commercial approach, TIM aims to remain the market leader in prepaid subscribers while improving our postpaid position with a higher market share in this market. Customer experience is also an important feature of TIM's strategic path, through the use of new "full digital" platforms and architecture to implement the best client end-to-end multichannel experience. Efficiency for TIM means a "lean company" approach, to capture a results-oriented culture for the company.

Protecting the value of our prepaid customer base and aiming at the growing postpaid segment, shifting focus from absolute market share to share of total revenue, and strengthening our existing customer base. As mentioned above, the Brazilian mobile telecommunications market is facing an overall reduction in the number of prepaid customers, as users which previously held multiple SIM cards are consolidating to one single SIM card due to macroeconomic pressures. In connection with this trend, our strategy is to be chosen as the single SIM provider for the prepaid market by providing offers that are attractive and valuable to customers (such as offering plans with more voice minutes and internet usage) and maintaining our reputation for quality. To support this strategy, we will also implement a new handset strategy and new initiatives in our sales channel model, including a more efficient regional approach.

Our growth strategy is mainly focused on addressing the potential for mobile Internet in the Brazilian market, particularly increasing mobile Internet penetration and data traffic. We believe mobile operators are in a strong position to address the demand for broadband in Brazil, with the ability to provide flexible price plans (including the prepaid market) affordable to the majority of the Brazilian population. The lack of fixed infrastructure is still an issue for accessibility to fixed broadband, especially in suburban areas, making mobile coverage more suitable for such customers without broadband access. 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. The machine-to-machine market, or M2M, is also an area of opportunity for growth with future applications to be developed.

In addition, our strategy also involves positioning TIM as a partner of our existing customer base, by increasing their loyalty by offering exclusive products to existing customers, focusing on value-added services in our offers, and by differentiation in our products and services. Value-added services represent an important part of the TIM strategy, as it is already a relevant market and has high growth rates with the potential to increase revenue streams. Recent value-added services that we have launched include TIM Music, TIM Protect (backup, antivirus, devices insurance) and plans that include unlimited usage of the WhatsApp messaging application. Such services are generally launched through a partnership with an established over the top player. We believe the foregoing strategies 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 investing in new channels, to bring new customers to the company and to enhance each customer's experience. We are constantly seeking new customers through new marketing efforts and promotional initiatives.

Capitalizing on fixed-mobile substitution in voice and traditional services. We seek to capitalize on the existing opportunity of fixed-mobile substitution in voice and data traffic and encourage the use of mobile devices, rather than fixed lines, for long distance communication and Internet. We believe that the main advantage of our product offerings is that our users are able to use our growing mobile network.

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-mobile substitution. We have become the market leader in the long distance telecommunications market based on our market share. Fixed-mobile substitution is still evident in Brazilian market, as fixed telephony operators have experienced a decline in revenues. 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.

As already mentioned, TIM is also targeting the residential broadband market through its 4G mobile broadband network, using WTTx technology, connecting homes to the Internet by using a router that connects to our 4G mobile network. We believe such product can be suitable specially for areas with poor fixed broadband infrastructure as our 4G coverage is growing rapidly.

Table of Contents

Providing Internet access to everyone. We intend to provide universal Internet access to all classes, offering our prepaid and postpaid customers competitive data usage plans through wireless handsets or other data devices (e.g. tablets, wearables, etc.). Our focus on increased data usage among our customers is also influenced by our ability to effectively manage our handset and accessories sales, with a primary focus on smartphone models that provide for quality Internet access at a low cost. 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 in our number of data users from 50.7% of our customer base in December 2015 to 51.9% of our customer base in December 2016.

Leading mobile internet growth in our sector is a key pillar of our strategy, since we see this as the most important market in terms of growth and size in the foreseeable future. Our marketing efforts have also been designed to stimulate internet usage and leverage our 3G and 4G networks by providing for suitable and affordable postpaid and prepaid internet plans.

Construction of a unique infrastructure network in the Brazilian market and improving our network. We are committed to developing a robust network infrastructure capable of serving our 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 (in page 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.

In 2016, 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. We have expanded our Mobile BroadBand, or MBB, project, which was launched in 2013, to 20 clusters, totaling 268 cities to be covered during 2016 and 2017, providing improved data transmission for mobile broadband users through an expanded high-speed fiber optic network and new functionalities in the core and access networks. The cluster concept expands the targeted zones to metropolitan areas of cities that were included in the MBB project in 2015, aiming to provide high quality experience in broadband mobility. The cluster perimeter includes the state capitals and their metropolitan areas, conurbation cities, major coastal cities and main primary access roads. Our commitment to providing improved, high-quality services is further reflected by our R\$4.5 billion in investments in 2016, roughly 85% of which were in infrastructure.

Besides improving our core infrastructure, TIM has been rolling out an aggressive plan for 4G coverage, which has placed TIM as the undisputed leader in 4G coverage in Brazil, achieving more than 1,255 cities with such technology in 2016, considerably ahead of its competitors. This positions TIM as having the best coverage and the best mobile broadband technology, creating the possibility of an improved market position, particularly for high end customers. Moreover, TIM has also been investing in 3G technology, achieving nearly 2,800 cities covered in 2016.

Expansion into new businesses and continued strength in recently expanded sectors. TIM Live offers high quality ultra-broadband, with high-speed data connection varying from 35 Mbps until 1 gigabit (1,000 Mbps) downstream and 500 Mbps upstream speeds, operating within Rio de Janeiro, Duque de Caxias, Nova Iguaçu, São João do Meriti and São Paulo.

In 2016, we had a base of 305.8 thousand clients, covering 2.9 million addressable households in 176 neighborhoods in the cities mentioned above. We will continue expanding our coverage in Rio de Janeiro and São Paulo states throughout 2017. Our success with TIM Live has resulted from a strategy of transparent communication and a commitment to deliver the services that the consumer actually purchased, which differentiates us from local market practice. As a consequence, TIM Live continues to lead Netflix's ranking of best broadband services in Brazil (in terms of Netflix performance on particular internet service providers), has the most satisfied users of the market according to research published by CVA Solutions, and has been listed as the best broadband service by Estado de São Paulo, one of Brazil's leading newspapers.

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 3,460 municipalities. We have 2G coverage

Table of Contents

available to approximately 95% of the urban population, 3G coverage available to almost 89% of the urban population and 4G coverage available to approximately 74% of the urban population of Brazil.

The map below shows our national coverage areas, considering 2G, 3G and 4G coverage:

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

	As of or For the Year Ended		
	December 31,		
	2016	2015	2014
Brazilian population ⁽¹⁾	206.1	205.2	203.5
Total penetration ⁽²⁾⁽³⁾	118.0%	125.7%	138.0%
Brazilian subscribers	244.0	257.8	280.7
National percentage subscriber growth	(4.0 %)	(8.2)%	3.6 %
Population we cover ⁽¹⁾⁽⁶⁾	195.8	187.5	185.0
Percentage of urban population we cover ⁽⁴⁾⁽⁶⁾	95.3 %	94.9 %	94.9 %
Total number of our subscribers	63.2	66.2	75.7
Our percentage growth in subscribers	(4.5 %)	(12.5)%	3.1 %
Our percentage of postpaid customers	22.9 %	20.5 %	16.5 %
Our ARPU ⁽⁵⁾	18.0	16.7	17.7

(1) According to the information used by Anatel; (October 2016).

(2) Percentage of the total population of Brazil using mobile services, equating one mobile line to one subscriber; (December 2016).

(3) Based on information published by Anatel and IBGE/IPC Maps; (December 2016).

(4) Number of people able to access our mobile network, based on Anatel's coverage criteria; (November 2016).

(5) Average monthly revenue earned per TIM subscriber; (December 2016).

(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.

30

Table of Contents

Under our current authorizations, we are allowed to set prices for our service plans, provided that such amounts do not exceed a specified inflation adjusted cap. Anatel must ratify our basic and other service plans, but its focus is on compliance with the relevant regulatory rules rather than the prices charged. See “—Regulation of the Brazilian Telecommunications Industry—Rate Regulation.” We charge different rates for our services, which vary according to the customer’s service plan. Per minute prices decrease as customers commit to purchasing more minutes per month. Prices can also vary depending on the 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 bundle of minutes and data that are included in the monthly service charge;

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

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

Certain plans include the cost of national roaming and long distance in the price per minute so that all calls within Brazil cost the same amount per minute. Some postpaid plans are designed for high and moderate usage subscribers, who are typically willing to pay higher monthly fees in exchange for minutes included in the monthly service charge 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 offer a single prepaid plan with promotional offerings, which does not include monthly charges. Prepaid customers can purchase a prepaid credits plan that may be used for calls, data and additional services, based on the specific customer's needs. 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

In 2015, TIM launched a new portfolio to provide a complete mobile communications solution, which combines voice, data and SMS. We believe the new portfolio will reinforce the strength of our innovative marketing positioning, while maintain our customer base revenues.

Within the consumer business, our main plans include:

Prepaid Plans

Infinity: under this prepaid plan, the customer is charged per day of use, with daily prices for various services (R\$0.99 voice unlimited / R\$0.99 Data 50MB / R\$0.99 SMS unlimited), per service (day of use) and no charge on any day when not used;

TIM PRE: new offerings launched in the first half of 2016, which includes weekly data package (250MB / 500MB / 1GB), unlimited SMS, an amount of minutes that can be used for local and long distance, both in-network and out-of-network calls (Free on net / 100 off net / 400 off net) and OTT service (WhatsApp / TIMmusic by Deezer). The customer is automatically charged on a weekly basis, as long as there is enough

Table of Contents

balance available. A monthly data package offerings was also launched with OTT services (TIMmusic by Deezer)

TIM Beta: plan marketed to young customers, charged per day for voice (to TIM numbers), SMS and mobile Internet services or weekly and monthly service bundles. The plan works with a referral mechanism. A new member can join only if referred to by existing members.

As a complementary offering to our prepaid plans, we also established new terms of usage of data package for our daily offers, wherein data is not interrupted but speed is reduced.

Post-Paid Plans

Liberty Express: for a monthly flat fee paid by credit card, the user gets a package of services that covers the average postpaid customer's needs. Such services include unlimited in-network calls to TIM numbers (local and long distance), unlimited SMS, and a set number of out-of-network voice minutes combined with a set package of data. The voice and data package combinations under the *Liberty Express* plan include 40 minutes for local distance and 2GB of Internet for R\$74.90 per month or 120 minutes for local distance and 4GB R\$124,90 per month.

TIM POS: Plan which includes a monthly 1000-minute package that can be used for local and long distance (in-network and out-of-network calls), unlimited SMS and a choice of data package ranging from 2GB to 20GB. In this offer, domestic roaming is included free of charge.

Controle Plans

TIM Controle and TIM Controle Express: Plan which includes a monthly 500-minute package that can be used for local and long distance (in-network and out-of-network calls), unlimited SMS and a 1.5GB of data. In this offer, domestic roaming is included free of charge. TIM Controle also allow customers to access WhatsApp free of data charges (offer does not include VOIP calls).

TIM Controle Light and TIM Controle Light Express: new plan launched in October 2016 with a lower price than TIM Controle, which includes unlimited voice monthly package with any number on the TIM network, 25-minute package that can be used for local distance calls with numbers of others mobile operators, and 1GB of data.

Once customers of control plans have reached the limit of their data plan, the data transmission is no longer available and the user has two options: (i) to repurchase a data package or (ii) to wait for the next data period to commence, which varies by plan, at which point his data availability and usage limit are renewed in full. Postpaid customers can

also purchase a data package to navigate in full speed but the usage is not blocked when he reaches the limit of his data package.

Corporate Plans

In 2016, we continued to improve our positioning towards the large companies as potential clients, offering a variety of corporate solutions for mobile or fixed services (both voice and data), as well as value-added services and mobile-to-mobile services. The approach for these top clients are driven by customized solutions and a premium customer service focus.

In line with the strategy started at the end of 2015, we have kept business deals attractive to our target customers, such as the “Small and Medium Enterprises” (*Pequenas e Médias Empresas*), or PME, customer group. We guaranteed “Minutes and lots of internet, for all providers and anywhere in Brazil.” In line with this strategy, we focused on the main benefits of offers such as: “TIM Empresa Tarifa Flat 1000 minutes + 3GB.” This plan includes 1,000 minute package to call all providers, local and/or national long distance, plus 3GB of internet data, 800 SMS and unlimited local Calls to the enterprise’s TIM numbers for only \$ 99.90 monthly. There were also 6GB and 10GB options, respectively at R\$ 129.90 and R\$ 144.90, monthly. TIM Empresa Tarifa Flat plans represent a major innovation in the Brazilian market because it significantly reduced the bill shock risk to our clients

We have also continued to offer Liberty Empresa, which provides unlimited in-network calls to TIM local and long-distance numbers within Brazil, unlimited talk to any radio user via through the *Liberty Empresa Rádios*

Table of Contents

option, as well as various package options for voice minutes for calls to other operators. This plan has a greater importance in areas where TIM has a high market share due to the “community effect.” Therefore, we continuing promoting offers in connection with the Liberty Empresa plan, such as “*Fale Mais Navegue Mais*”, encouraging our potential customers to customize their mobile plans by offering 12 combinations of local minutes plus data, for competitive prices. Starting at R\$69,90 monthly, clients pick Liberty Empresa 200 or 400 local minute package to call other providers (unlimited calls to TIM numbers anywhere in Brazil are included) and choose from 1GB, 3GB, 6GB or 10GB internet. We have also maintained the entry offerings of our portfolio: “*Liberty zero*” without an unlimited voice package and “*Liberty 50*” to remain competitive.

To meet the market demand, we had major launches in 2016:

For better control and optimization of customer usage, we released a shared minutes package called “*Pacote de Minutos Compartilhado Flat*” in May. This package offers local and long distance shared minutes for the same rate. The shared minutes packages vary from 600 to 100,000 minutes. Thus, our portfolio is more competitive and complete. We had already released the *Pacote de Minutos Compartilhados Liberty*” before, in August 2015.

We also launched the plug-in “*Liberty Plus*” in May. Liberty Plus provides unlimited in-network calls to TIM local and long-distance numbers within Brazil. This plug-in can be added to Tarifa Flat offers. The plug-in costs R\$9.90 per month. Hence, the customers have local and national long distance calls at the same flat rate to all telecommunication providers and have unlimited in-network to TIM numbers.

· Launch of “*Tarifa Flat*” for 500 minutes local and national long distance calls.

Launch of the option: “*Tarifa Flat*” without voice package minutes, which provide only local in-network calls and 100MB of data, to meet market needs. This product has made us more competitive in the corporate market, especially for larger deals. It costs R\$24.90/monthly. We also launched different levels of discounts as per the number of accesses contracted. The objective was to make our plans more flexible by offering the “*Tarifa Flat*” without an individual package of minutes together with the shared voice minutes package “*Pacote de Minutos Compartilhado Flat*.” In November, we launched a larger variety of data packages for mobile use in our portfolio: 2GB, 4GB, 6GB.

A main focus during recent years has been to improve the plans based upon specific needs demonstrated to us. In 2014, for example, we introduced loyalty clauses into new 24-month contracts, with the goal of strengthening customer loyalty. These loyalty-based contracts are available with all renewed corporate customer plans.

The following presents a brief summary of certain key elements of our Internet corporate offerings:

Liberty Web Empresa 1GB, 3GB and 10GB: post-paid plans that offer Internet access through modems and tablets, with possibility of repurchasing. This data plan and its packages are no longer offered as our main internet option, as it was replaced for the new Liberty Web Empresa Multi portfolio, and is available for customized orders, only.

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: the first option (20MB) is offered free of charge to our new clients and is automatically included in voice plans that have no data package; from the 50MB data package onwards, data packages are charged at fixed prices of R\$9.90, R\$14.90, R\$21.90, R\$29.90, R\$34.90 and R\$49.90 per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These packages 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.

We also provide flexibility for our Senior Account Channel, allowing negotiations with a high level of discounts.

Table of Contents

Value-Added Services

We are constantly seeking to increase value to our customers through innovative offers and products, and 2016 was no exception. 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, WAP downloads, web browsing, business data solutions, mobile-learning services with TIM “Educação”, wellness services with TIM “Bem Estar”, songs with TIM Music, ringbacktones with TIM “Som de Chamada”, applications with TIM Apps Club, voicemail, conference calling, chats and other content to our postpaid and prepaid customers. Under various postpaid mobile plans some value-added services are included in the monthly subscription charge at a specified level of usage.

The following is a brief summary of our principal value-added service offerings to consumers and corporate customer groups:

TIM Protect Portfolio: a range of services designed to increase the security of our customer’s devices and personal information. The main services are:

TIM Protect Segurança: security solution to protect customer’s PCs, Macs and Android smartphones and tablets with award-winning technologies from Kaspersky Lab. Protection against all new and emerging Internet threats; premium anti-theft/loss protection for Android devices; helps bank, shop and pay online safely

TIM Protect Backup: white-label personal cloud solution provided by Funambol. This multi-platform solution supports all types of devices by allowing the storage and synchronization of subscribers’ data (photos, videos, files, etc.)

TIM Protect Contacts Backup: provides customer’s phonebook storage and synchronization including SIM-based contacts on feature phones thanks to Gemalto’s SIM cloud backup solution.

TIM Gourmet: provides a full range of gastronomy services, including a restaurants and events guide, a delivery service (in partnership with ifood.com) and recipes from Chef Claude Troisgros.

TIM Music: a music platform for all devices, which includes:

TIM Music by Deezer: in partnership with Deezer, TIM Music by Deezer is a service of streaming music which includes offline mode always available through the TIM Music by Deezer application.

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

TIM “Som de Chamada”: a ringbacktone service in partnership with Armotech. Through TIM “Som de Chamada” the customer can choose a song that callers will hear when they call the customer’s TIM number.

- *TIM Music Store*: A music store for mp3 music and ringtones. Specially for features or low end phones.

TIM “Educação”: a multi-platform umbrella of learning services, which uses SMS, WAP, Internet, applications and interactive voice response, or IVR. Specific services include:

TIM Wizard Inglês: an English course in partnership with Wizard, the biggest Brazilian English course franchise, which teaches English using its methodology.

· *TIM Espanhol*: a basic Spanish course.

TIM Descomplica ENEM: a mobile course in partnership with Descomplica that permits users to prepare for the ENEM and Vestibular, Brazilian college entrance exams.

- *TIM Português*: Portuguese tips with Sergio Nogueira, a Brazilian famous Portuguese teacher.

TIM “Bem Estar”: a multi-platform umbrella of wellness services, which uses SMS, WAP, Internet, applications and IVR. A prominent feature of this value-added service are “Daily Tips” endorsed by Brazilian personalities, including “TIM Saúde” (health tips with Drauzio Varella), “TIM Boa Forma”

Table of Contents

(fitness tips with Solange Frazão), “TIM Receitas” (food recipes tips with Edu Guedes) and “TIM Estilo” (style tips with Gloria Kallil).

TIM Apps Club: an innovative and signature applications service, wherein the user pays a small monthly fee and receives access to hundreds of the best Android applications without additional cost.

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.

TIM Banca Virtual: a digital information service that provides the main magazines in the country (such as Veja, Exame, Superinteressante, Fitness, VIP and Capricho) for our clients to access when, where and how they want. The disclosed contents can be viewed through a portal or via an application that is available for the operating systems Android and IOS, through smartphone, tablet or computer. The main distinguishing feature of the “TIM Banca Virtual” is the user’s reading experience, and goes beyond simple transcription of physical searches to digital format and brings elements such as sound, video and interactivity. The model is already used by Editora Abril in their digital content but is the first of its kind for Brazilian telecommunications carriers.

TIM Clube de Descontos: a weekly subscription service that provides discounts online and offline for the main stores from all over the country.

TIM Viagens: an innovative service that provides, through an application, information, tips, prices, hotels, car and flight offers using a partnership with Booking.com and Decolar.com.

TIM Finanças: an application that gives the user the knowledge of how to control expenditures, how to save money and also provides a tool that helps to put in practice all the content.

TIM Empregos: an innovative service that provides, through an application, information on open jobs in a city of choice within certain departments and job roles. “TIM Empregos” is a partnership with Vagas.com.

TIM Kids Criar and TIM Kids Brincar: an innovative platform focused on children from 0 to 10 years with videos, music, interactive games, and educational activities.

TIM Gravidez: a platform providing all information that an expectant family needs to have before and after having a baby. An innovative feature of this service is that mothers and fathers receive different content showing each point of view.

TIM Espaço Mulher: a multiplatform service focused on women of all ages with the newest content and tips relating to, among others, eating, relationship, family and fitness.

TIM Audiobook: an innovative service that permits the user to buy and listen to audiobooks direct from the user's phone and without internet.

EI Plus: a subscription service costing R\$4.99 per week, where TIM users can watch live content from Esporte Interativo's channels (including, for example, UEFA Champions League matches, Brazilian C and D Division soccer tournaments, NFL games, MMA tournaments) by means of an iOS, Android and Windows Phone application and website.

TIM Games Club: an innovative subscription games applications service, wherein the user pays a small fee and receives access to hundreds of the best game applications without additional cost.

Table of Contents

We offer data services which support our value-added services across every technology currently available on our network, starting from GPRS/EDGE capability using the GSM network, followed by 3G/ High Speed Packet Access, or HSPA capability, using 3G infrastructure, and, since 2013, also through the 4G layer, which is fully dedicated to data services. Also, 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. By December 2016, our 4G data transmission technology, Long Term Evolution, or LTE, at the 2.5GHz and 1800MHz spectrum, was available in 1,255 cities (representing 74% of urban population). LTE allows the user to access the Internet at very high data speeds. The 2.5GHz LTE network layer is built under an innovative RAN sharing deal with another two Brazilian mobile operators, which establishes that each operator is responsible to cover part of the Brazil with LTE network (see “Item 4. Information on the Company—B. Business Overview—Site-Sharing and Other Agreements”). This agreement brings significant savings in LTE construction and operation for both companies while keeping subscribers and services completely separate.

Some changes in our business model for value-added services, such as new pricing and implementation strategies, were instrumental in increasing our profits and those of our partners. Value-added services represented 35.0% of our mobile services gross revenues in 2016, 35.0% of our mobile services gross revenues in 2015, 28.0% of our mobile services gross revenues in 2014, 22.3% of our mobile services gross revenues in 2013. We continued to experience growth in usage of these services in 2016, as illustrated by revenue growth from value-added services of 24.0% compared to 2015.

Financial and Other Services

Financial Services

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.

From 2013, we have 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 Near Field Communication, or NFC, technologies in partnership with Mastercard, RedeCard and Gemalto and “mobile money” payments via mobile phones with Caixa Econômica Federal and MasterCard.

Mobile 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. The product allows our customers to protect themselves against the costs of mobile handset theft and/or accidental damages (physical or water damage) for monthly prices ranging from R\$2.99 to R\$54.99, depending on the contracted coverage (theft only, damage only, or complete) and price of the device.

Financial Protection Insurance – “Protected Invoice”

Our “Protected Invoice” service is a financial protection insurance for postpaid plans that guarantees payment of up to 3 of the customer’s TIM bills, each up to R\$100.00, in the event of involuntary unemployment or full or temporary physical disability. The insurance, which costs R\$6.50 per month, is offered to our postpaid customer base through Smart Message channel, which provides a convenient and easy way to subscribe.

New Insurances – Personal and Residential Markets

Our insurance portfolio also includes the personal and residential accidents markets as a means of capitalizing on additional lines of revenue. We offer two types of personal accident insurance plans: *Personal Accident Insurance with Help Desk Assistance* and *Personal Accident Insurance with Concierge Assistance*. Both insurance plans guarantee the payment of R\$5,000 in compensation to the beneficiaries in a result of accidental death. Additionally, the plans also offer assistance to plan customers when needed, which adds value for the customer because they can make use of the product routinely, as opposed to only in the rare instance of accidental death.

Table of Contents

Personal Accident Insurance with Help Desk offers technical support assistance over the phone, Internet, chat and remote access (Virtual Tour) for hardware problems (including PCS, laptops, netbooks, tablets and smartphones). The insurance costs R\$8.90 per month and is offered to our postpaid customer base through Smart Message, SMS and IVR channels.

Personal Accident Insurance with Concierge offers travel assistance when traveling, for financial and health purposes, emergencies and daily activities. The insurance costs R\$6.90 per month and is offered to our postpaid customer base through Smart Message, SMS and IVR channels.

We also offer two types of residential accident insurance plans: “*Casa Protegida*” and “*Casa Protegida Completo*.” The first offers cover fire, explosion, lightning and aircraft. It costs R\$9.90 per month and is offered to our prepaid customer base. The second offers the same coverage but also includes residential assistance (such as electrician services, leakage tests, and other residential assistance) that can be used at any time. This insurance is offered to the postpaid customer base and has a cost of R\$16.90 per month. Both products are offered to our customer base through Smart Message, SMS and IVR channels.

Micro Rewards Platform - Telecom Bonus

As another source of new revenue, TIM partnered in 2014 with MinuTrade to participate in “Micro Rewards” platform. The Micro Rewards platform integrates TIM’s systems with many different partner companies in order to provide to our common customers certain bonuses or credits towards TIM purchases, or Telecom Bonuses. For example, in the Brazilian bank market is common to charge customers a monthly fee for account maintenance. In exchange for the monthly fee payment, participating banks reward the customers with a Telecom Bonus which can be used for in-network calls, long-distance calls, SMS and daily data packages. Our new revenue comes from selling the wholesale value of the Telecom Bonus to the banks and other partner companies. MinuTrade receives a commission for use of the “Micro Rewards” platform.

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. During 2016, our target was penetrate the use of offer to bring to our clients convenience in payment solution. TIM Itaucard allows the Company to develop a deeper, more loyal client relationship and provides increased revenues.

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 into a partnership with 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. With this “mobile money” service, which is named TIM Multibank CAIXA, users can use their TIM mobile devices to pay their bills and send and receive money. With the growth in popularity of this service, TIM will strongly contribute to the financial enfranchisement of millions of Brazilians, given that 40% of Brazilian population currently have no bank account.

Table of Contents

Revenues

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

Category of Activity	Year ended December 31,		
	2016	2015 (Revised) (1)	2014 (Revised) (1)
	(in millions of R\$)		
Service revenue	21,367.8	23,124.6	24,537.6
Goods sold	1,377.8	2,646.9	4,471.3
Gross operating revenue	22,745.6	25,771.5	29,008.9

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Revenue from mobile telephone services includes revenue from:

monthly subscription charges;

network usage charges for local mobile calls;

roaming fees;

interconnection charges;

national and international long distance calls;

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;

sales of mobile handsets and accessories; and

co-billing.

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.

Table of Contents

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.

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 which are 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 approved rates. As mentioned above, PGMC is currently under review by Anatel and as a result of such process the agency may eliminate or create new relevant markets, as well as modify our classification as having significant market in the applicable relevant markets.

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.

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

On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, TU-RL, and EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as BU-LRIC is applied (2019, for VU-M and TU-RL; and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016. With the adoption of the cost modeling methods, VU-M declined, and is expected to

Table of Contents

keep declining, approximately, as follows: Region I: 40-45% in the first year, 47% in the subsequent years; Region II – 35% in the first year, 48% in the subsequent years; and Region III: 24-30% in the first year, 39% in the subsequent years.

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, which is the primary impact of our classification as a significant market power. Because the significant majority of our interconnection charges are to the other leading telecommunications operators in Brazil, which are also classified as having significant market power, we are also entitled to remunerate these providers at the reference rates approved by Anatel.

In addition to the VU-M reduction, Anatel established a Bill & Keep, or B&K, rule between significant market power and non-significant market power PCSs. From January 2013 until February 2015, the B&K was 80%/20% as established by Resolution 600. On February 12, 2015, Anatel approved, by means of Resolution No. 649/2015, the following new B&K percentages, amending the percentages established by Resolution 600: 75%/25%, from 2015 until 2016; 65%/35%, from 2016 until 2017; 55%/45%, from 2017 until 2018; and 50%/50%, from 2018 until 2019, which was object of a judicial suit (on going), in order to suspend its effects. After 2019, the VU-M will be charged by the significant market power whenever their network is used to originate or to finish a call. In July 2015, we filed a lawsuit seeking to annul Resolution No. 649/2015 and maintain the percentages originally established by Resolution 600, which currently remains ongoing.

As mentioned above, PGMC is currently under review by Anatel and as a result of such process, the agency may eliminate or create new relevant markets, as well as modify our classification as having significant market in the applicable relevant markets.

We are currently reevaluating our strategy due to new commercial conditions. In any case, it is likely that we will remain subject to some form of systematic rate regulation as a result of our classification as having significant market power.

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.")

Table of Contents

In 2012, the unification of the long-distance 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 adherence to our international roaming service, with extremely attractive values.

Sales of Mobile Handsets

We offer a diverse portfolio of 25 to 30 handset models from several manufacturers, including Apple, Samsung, LG, Alcatel, Positivo and Motorola, for sale through our dealer network, which includes our own stores, exclusive franchises and authorized dealers. 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, mainly 4G equipment that provides Dual SIM, NFC, Wi-Fi, Internet, Bluetooth and camera functionalities, while practicing a policy of increasing 4G smartphone penetration, focusing on high quality 4G smartphones to enhance the customer experience. Our mobile handsets can be used in conjunction with either our prepaid or postpaid service plans. In 2017, TIM increased its focus on the postpaid segment, offering these customers subsidized high-level 4G smartphones. As the average sales price is growing in the Brazilian market, TIM introduced “TIM Next”, a program intended to make the premium devices more affordable to the end user by giving them the option to re-sell their own devices for an amount that can be discounted from the cost of the new device. Currently, 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 and other web 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.

Sales and Marketing

Our recent sales and marketing strategy has been characterized by:

an innovative and changing portfolio of offerings to appeal to the increasingly connected and cost-sensitive Brazilian customer. We have increased our data package offerings and included applications to enhance the customer experience (such as an instant messaging application). In addition we allow the customer to continue browsing even after the end of their data package, providing them the option to continue to use data at reduced speed;

an evolution of our postpaid plans, within which we are pursuing a number of strategies, including: (i) a review of our offers in order to stimulate the sales of postpaid plans, with discounts in services and handsets, according to the commitment of the customers; (ii) add value, including VAS services as part of our plans, without extra charges; (iii) creating new markets for postpaid plans, according to our customers' usage profile; and (iv) creating new opportunities for transitioning the higher spending prepaid customers to postpaid (for example, through our new *Controle* plans for intensive data users);

launch of new TIM Beta offers to develop brand loyalty as well as profitability and improve customer satisfaction. New offers are charged per week or per month and deliver a higher data package for users who achieve high scores in the gamification, which consists of the use of games dynamics to give rewards to customers, and that is exclusive to Beta users; and

a restructuring of our corporate business, targeting the growth of the overall sales force in order to boost mobile sales and provide a convergent approach on selected markets and areas. This strategy will continue in order to meet customer needs and achieve alignment with industry demands.

Our Network

Our wireless networks use 2G, 3G and 4G technologies and cover approximately 95% of the urban Brazilian population based on Anatel's coverage criteria. In order to move toward 4G services, in October 2012, we acquired

Table of Contents

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 Esp rito Santo, Paran , Rio de Janeiro and Santa Catarina states.

As part of regulatory commitments, we started covering six cities by April 2013 with 4G/LTE. As of December 2013, we had provided 4G coverage to approximately 27% of the urban population of Brazil, including 19 capital cities. By the end of 2015, we were providing 4G/LTE coverage in 411 cities, making us the national leader in provision of 4G/LTE by number of cities covered, considering implementation in both the 2.5GHz and 1800MHz layers. These cities represent 59% of total Brazilian urban population.

Between 2007 and 2014, we acquired new RF authorizations used for 3G and 4G mobile telephone services at the 2100 MHz, 2500 MHz and 700 MHz bands. In September 2014, we invested approximately R\$2.85 billion to acquire bandwidth in the 700 MHz range, aligned with our strategy of expanding our broadband and 4G service across Brazil. We began providing our services in the 700MHz range in 2016 (Rio Verde, in the state of Goi s and Fernando de Noronha, and in the state of Pernambuco), and will expand such services, depending on the progression of spectrum clean-up required of the winning bidders for the spectrum (see “—Regulation of the Brazilian Telecommunications Industry—Frequencies and Spectrum Background”). In December 2015, Anatel auctioned left over radio frequencies in the 1,800 MHz, 1,900 MHz and 2,500 MHz bands. We submitted bids for the left over lots of the 2,500 MHz band, which had originally been auctioned in 2012. This particular band spectrum provides for 4G mobile services. We were classified as the first ranked bidder in the lots for Recife, in the state of Pernambuco (Region AR 81), and Curitiba, in the state of Paran  (Region AR 41), based on our bids which totaled R\$57.5 million. The corresponding authorization terms were signed in July, 2016. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Authorizations and Concessions.”

RF authorizations are generally valid for a period of 15 years and renewable for 15 more years (with exceptions such as the LTE “P” band, for which the authorization period is less than 15 years), and our current authorizations will start expiring in April 2023, starting with our 3G RF authorization.

These investments allowed us to reach, by the end of 2016, the milestone of 1,255 cities with 4G coverage, or 74% of the country’s urban population. We are thus the undisputed leader in 4G coverage in Brazil among mobile telecommunications providers, both by number of cities served and percentage of population covered. A major portion of the Company’s capital expenditures between 2017 and 2019 will be dedicated to further investment in 4G networks.

We consider 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 2016, we made R\$4.5 billion, or 84.5% of our capital expenditures (excluding licenses) in investments to improve our network infrastructure, primarily in 4G and 3G deployment, expansion and capacity enhancement of optical transport networks, quality maintenance and enabling of fiber-to-the-site and MBB programs.

Our wireless network has both centralized and distributed functions, and mainly includes transmission equipment, consisting primarily of 12,902 BTS in our GSM network, 14,459 NodeBs (which provide connection between mobile phones and the network) for the 3G layer and 11,645 eNodeBs for 4G network as of December 2016, hardware equipment and software installation and upgrades. The network is connected primarily by IP radio links and/or optical fiber transmission systems distributed nationwide. Only a few radiobase stations remain connected by leased lines. Nokia Siemens Networks, Ericsson and Huawei are our main suppliers for GSM and 3G equipment.

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. Our MBB service now reaches 194 cities. By the end of 2015, 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. We will continue investing in high performance MBB.

Another priority is developing our national network. In December 2016 as compared with the December 2015, we increased by 9.3% the quantity of sites connected by optical fiber, contributing to a 47.1% increase in data carried on our network during 2015. The results are consistent with Anatel's network quality requirements, and with

Table of Contents

TIM retaining its solid performance in 2016. Since national coverage and quality of service has improved substantially over the last few years, Anatel has shifted its focus in 2016. Anatel is now concentrating its efforts on smaller geographic areas, particularly in those areas where service is still considered poor. Anatel's prior focus was on service quality from a broader state-oriented perspective rather than this local perspective.

In accordance with Anatel's directions more toward monitoring and evaluation of quality in more specific geographic areas, we will begin to disclose our quality indicators based on the number of cities – rather than states – within Anatel's targets. Such indicators are expected to be more accurate and better reflect the customer's experience.

Considering the official data released by Anatel through August 2016 and internal estimates from September and October 2016, TIM demonstrated solid improvements in Anatel's voice quality metrics. TIM has also been able to sustain its positive results in data indicators (3G/4G), particularly in 4G, demonstrating that we are the national leader in coverage by number of cities.

Our switching exchanges and intelligent network platforms 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.

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

As of December 31, 2016, our optical fiber infrastructure is highlighted by the following characteristics:

the presence of TIM Fiber (now TIM Celular) services in 176 neighborhoods in the metropolitan regions of Rio de Janeiro and São Paulo, with continued expansion in Rio de Janeiro and São Paulo, where our TIM Live service is available;

the presence of fiber optic networks in 5 cities; and

an extensive wide area network covering more than 2.1 million households by address and approximately 3,000 Multi-service access nodes or MSANs, which is a network element that provides connection with the core network.

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 28, 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 of certain obligations of each party under the MoU. CADE fully approved the inclusion of new territories and governance structure on November 19, 2013, which completed all regulatory steps necessary for approval.

Table of Contents

In April 2014, TIM Celular and Oi filed with CADE and Anatel an MoU aimed at negotiating the joint construction, implementation and reciprocal assignment of elements of their respective network infrastructure for GSM (2G) and UMTS (3G). On April 25, 2014, during a meeting with TIM Celular and Oi, Anatel requested additional information, including the final draft of the agreement to be executed by the parties. On May 6, 2014, CADE requested additional information about the transaction. On December 30, 2014, TIM and Oi provided additional information and clarification before CADE and Anatel, as requested by the respective authorities. On January 29, 2015, CADE approved the transaction without restrictions and on March 16, 2015, Anatel approved the transaction without restrictions.

In June 2015, we executed an MoU aimed at negotiating the joint use of LTE network (4G technology) under a RAN sharing model (MOCN) pursuant to which Vivo, Oi and TIM will invest proportionally (2 Vivo, 1 Oi and 1 TIM) in sites in certain cities based on their coverage obligations. On December 14, 2015, CADE approved the operation without any restrictions. On December 21, 2015, Anatel also approved the operation based upon MOCN spectrum sharing among only the 3 operators. At the beginning of 2016, however, Anatel required that the parties include new clauses in the contract permitting a new additional operator be added. This contract covers 32 cities in 2015, 150 cities in 2016 and will cover 252 cities in 2017.

In October 2015, TIM Celular, Vivo, Claro and Oi filed with CADE a Term of Commitment aimed at negotiating the joint hiring of one or more companies to carry out the construction, installation and assignment of infrastructure in indoor sites in several locations in Brazil. On December 21, 2015, CADE approved the transaction without restrictions.

In November 2015, TIM Celular, Intelig and Vivo filed with CADE and Anatel a Contract aimed at negotiating the joint use of UMTS network (3G technology) under a RAN sharing model (MOCN) in certain cities based on their rural coverage obligations. On December 16, 2015, CADE approved the operation without any restrictions and on August 19, 2016, Anatel approved the transaction without restrictions.

Customer Service

In order to serve our customer base, over 63 million customers, we aligned the insourced/outsourced ratio of our internally managed customer service operations to our outsourced customer service operation to the best practices of Brazilian telecommunications business. We operate through 13 customer care centers, two of our own and eleven outsourced, comprising around 16,300 customer service representatives (of which 2,800 are the purpose of offering dedicated to provide the best options in terms of offers and services to our multi-customer base). Our high value customer service and core processes are maintained within our internal customer care centers.

In 2016, TIM defined its new strategy plans based on four pillars, one of which is “Customer Experience”, with the challenge to offer a better, end-to-end, customer centric model, in an omni channel approach, tuned to global market trends. Since then, we have created initiatives to bring about transformations in culture and processes, because – more than just a concept – Customer Experience is a practice in which the goal is to place the customer at the very heart of organizational efforts.

The first step towards our goal was to assess our customer journeys and customer relationship growth, and create a “Customer Experience” team within the TIM organization to focus on the “Customer Experience”. The team is divided in three fundamental projects: design, execution and monitoring.

The goal of the design team is to develop a customer-centric approach to core processes and competencies, through the creation and revision of policies, normative documents and indicators that allow customer necessities to be in line with the business model evolution.

The execution front is responsible for leading multidisciplinary teams that act in coordination with TIM’s business units to improve customer experience by preventing gaps in launching new products and offers and to solve problems already detected by customer research. The focus is to transform known problems into action plans and to identify new ones through established key performance indicators, or KPIs.

The monitoring team consolidates KPIs that reflect customer problems, necessities, and perceptions. The goal is to direct the analytics efforts towards a more predictive implementation, allowing decision makers to act before problems have an impact in customer satisfaction.

Table of Contents

Moreover, we have contributed maximizing customer satisfaction through continuous improvements in our processes and systems. In order to improve our customer experience through digital channels and to provide greater convenience and autonomy, we have developed new self-service applications for iOS and Android, letting our customers track their in real time usage, costs and payment as well as manage their services and accounts. We maintained our efforts in workforce training, updating procedures focused on meeting customer demands, and developing programs to encourage attendance.

We further improved our electronic customer service menu (URA) performance by offering new customer-oriented options and introducing natural language interactive voice response.

Our portal *144# uses Unstructured Supplementary Service Data, or USSD, a technology to allow the activation of services from the mobile device itself.

We completed the migration of pre and postpaid back office services (front end was implemented in 2015) to the Siebel customer relationship management, or CRM, system, and will continue the migration to the systems replacement for corporate customers as well.

We also implemented a new approach to customer service infrastructure monitoring by introducing a new business support system performance indicator and service level by business process in order to monitor and guarantee the designed Customer Experience.

Billing and Collection

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

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

billing and collection.

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

Certain aspects of billing customers in Brazil are regulated by Anatel. For mobile and fixed telephones, currently if a customer's payment is more than 15 days overdue, we can suspend the customer's ability to make outgoing calls if preceded by a notification. If the payment is 45 days overdue, we can suspend the customer's ability to receive incoming calls, also if preceded by a notification. For residential broadband, currently if a customer's payment is more than 15 days overdue, we can reduce the speed of the customer's broadband access and if the payment is 45 days overdue, we can suspend the customer's broadband access. After 90 days from the customer's payment due date, we generally discontinue service entirely, with a notification to the customer. Discontinuation of service is sometimes delayed, however, between 120 and 180 days after the due date for valued customers. The rules of suspension and discontinuation of fixed and residential broadband service are the same as those applied for the mobile service.

In March 2014, Anatel approved a single regulation for the telecommunications sector, with general rules for customer service, billing, and service offers, which are applicable to fixed, mobile, broadband and cable TV customers.

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 2016. Our "*Plano Express*" has also proved to be an important tool to prevent early delinquency, since the payments are made by credit card.

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 "*—Interconnection Charges*"

Table of Contents

and “—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, maintaining a blacklist of offenders to prevent fraud, analysis of the documentation presented and monitoring and identification of point of sale. We also work to detect and prevent fraud by frequently improving and updating our traffic behavior monitoring and subscriber data.

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.

Sources and Availability of Raw Materials

Our business and results of operations are not significantly affected by the availability and prices of raw materials.

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.

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, Telefónica and Embratel Participações S.A. (owned by America Movil), as well as Algar Telecom, which is a regional incumbent) and some relevant players (GVT S.A., acquired by Telefónica, and Net Serviços de Comunicação S.A., owned by America Movil) offer packages of services including voice (both fixed line and mobile), broadband and cable TV services in a bundled offer. 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 and AES Atimus broadened our participation in the fixed telecommunication sector.

We also compete in the corporate telephony business with Nextel, which acts both as a digital trunking (based on push-to-talk technology), or SME, provider as well as a regular mobile, or SMP, provider, using 3G and 4G technology in some regions. SME providers operate under rules similar to the rules applicable to mobile

Table of Contents

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, since 2013, after winning a bid for UMTS frequencies mobile telecommunications services held by Anatel. Nextel became the fifth mobile telecommunications competitor, but its network deployment was focused mainly in the states of São Paulo and Rio de Janeiro. Later, in 2014, Nextel also entered into a national roaming agreement with Telefónica, whereby Nextel personal mobile service, or SMP, customers can use Telefónica mobile 2G and 3G network in regions where Nextel does not have coverage. In June 2016, CADE approved the RAN sharing agreement between Nextel and Vivo, which only includes 1.9 and 2.1 MHz frequencies (3G). This deal is complementary to the roaming agreement that Nextel had previously arranged with Vivo. Nextel is in a continuous migration process of its customer base from SME to SMP technology. More than 74% Nextel's customer base is already in SMP.

On February 9, 2015, Anatel approved, by means of Resolution No. 647/2015, the adjustment of SME licenses into PCS licenses, although charges may apply to operators in connection with such adjustment. In December 2015, Nextel won the auction for the 30 Mhz band in the 1,800 Mhz spectrum in São Paulo with an offer of R\$455 million. Nextel will use this spectrum to offer SMP services in a movement of transition from an SME operator to an SMP operator. Nextel has opted to have Anatel adjust its SME licenses into PCS licenses and the process is ongoing.

Our Operational Contractual Obligations

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

Interconnection and Other 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 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 “—Interconnection Regulation.” Anatel is currently reviewing the interconnection regulation and as a result of such process we may have to changes our current practices regarding interconnection agreements.

As a means to improve efficiency and reduce costs, we also enter into agreements with the other major Brazilian telecommunications operators related to (i) the cancellation of idle circuits and (ii) interconnection using Session Initiation Protocol (SIP) technology.

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 Brazilian 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 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.

Table of Contents

International Roaming Agreements

We have international roaming agreements available in approximately 205 different countries on approximately 450 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. Our international roaming agreements have steadily expanded in recent years. By the end of 2016, we expanded our data coverage to 153 additional countries, and among them 30 have 4G service.

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. In October 2015, the *Liberty Passport* offering was redesigned to offer increased data to customers in key destinations, with the goal of creating a better overall user experience for our customers in general. Moreover, focusing on a key portion of TIM customers, the offering was made available in the United States at a rate of R\$9.90 per day of use. As of December 2016, international roaming is available to customers on our Prepaid, Controle and Liberty plans.

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, we seek to comply with all applicable laws. The Code of Ethics is available on our website: www.tim.com.br/ir.

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 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 informs us that the activities, transactions or dealings each company had in the year ended December 31, 2016 that, to its knowledge, relate in any way to Iran are (1) Roaming Agreements, which allow its mobile customers to use their mobile devices on a network outside of their home network, or Roaming Agreements, (2) international telecommunications services agreements with international carriers, which cover delivery of traffic

Table of Contents

to Iran through non-Iranian carriers, or International Carrier Agreements, and (3) other commercial communications agreements of a *de minimis* value.

Telecom Italia

Telecom Italia informs us that the only activities that Telecom Italia had in the year ended December 31, 2016 that, to its knowledge, relate in any way to Iran are:

Roaming Agreements with the following Iran mobile phone operators: KFZO – TKC (former Payam Kish), Gostaresh Ertebatat Taliya PJS (former Taliya), Rightel Communication, Irancell (MTN), Mobile Company of Iran (MCI) and Kish Cell Parts Co.;

International Carrier Agreements between its subsidiary Telecom Italia Sparkle S.p.A., or TI Sparkle, directly and through its subsidiaries, with Telecommunication Company of Iran (TCI); and

Telecom Italia has entered into certain agreements for the provision of telecommunication services (marine radio traffic) with Telecommunication Company of Iran (TCI) for services to Islamic Republic of Iran Shipping Lines.

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).

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 their subsidiaries have entered into Roaming Agreements with many foreign mobile networks, so as to allow their customers to make and receive calls abroad.

Roaming Agreements, including those relating to Iran, are on standard terms and conditions. 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.

The Foreign Network bills us for calls made and received by our roaming customer on their network 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 agreement 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 customer agreements. Roaming Agreements do not, generally, contemplate other fees or disbursements.

Telecom Italia informs us that in 2016, 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 14,988 thousand euros;

Table of Contents

- its total charges from Roaming Agreements with Iranian networks were approximately 7,082 thousand euros;
- its total receivables from Roaming Agreements with Iranian networks were approximately 34,016 thousand euros;
- and
- its total payables from Roaming Agreements with Iranian networks were approximately 31,927 thousand euros.

According to information provided to us by Telecom Italia, these revenues and charges are immaterial to their consolidated revenues and operating expenses.

The purpose of such Roaming Agreements is to provide Telecom Italia's customers with coverage in areas where they do not own networks. In order to remain competitive and maintain such coverage, the Telecom Italia Group intends to continue maintaining these agreements.

International Carrier Agreements

As a rule in the modern telecommunication business, when voice and data traffic from a specific network is placed to or transported through another carrier's network, or the Host Network, the Host Network receives a fee from the incoming network. Likewise, when voice and data traffic coming from one of our networks is placed with, or transported through, a Host Network, we owe a fee to such Host Network.

Telecom Italia informs us that in 2016, 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 355 thousand euros;
- its total charges from traffic to networks in Iran from its networks were approximately 993 thousand euros;
- its total receivables from traffic from networks located in Iran to its networks were approximately 4,811 thousand euros; and
- its total payables from traffic to networks located in Iran from its networks were approximately 5,370 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, operating expenses trade receivables and trade payables, respectively.

Other De Minimis Commercial Communications Agreements

Telecom Italia had no revenues in 2016 from its other commercial communications agreements within Iran as described above, and its total receivables from such commercial communications agreements in 2016 amounted to 3,666 thousand euros.

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.

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

Table of Contents

rates between 25% and 35%. The ICMS tax rate levied on the sale of mobile handsets and other products such as modem and SIM cards averages 17% or 20% throughout the Cellular Regions, with the exception of certain handsets whose manufacturers are granted certain local tax benefits, thereby reducing the rate to as low 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.

Since December 2016, the ICMS rates over telecommunication and goods were increased in some Brazilian states, such as Maranhão, where rates have increased from 25% to 27% and Rio de Janeiro, where rates have increased from 30% to 32%. With respect to the rates over goods, Piauí has increased from 17% to 18%.

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%. On July 1, 2015, Decree No. 8,426 came into effect, which restored COFINS on financial revenues at a rate of 4.0%, except for some types of financial revenues (for example, revenues from foreign exchange variations of exportation of goods and services, revenues resulting from foreign exchange fluctuations of obligations undertaken by the company, including loans and financing and revenues related to hedging transactions on stock exchange values, and revenues from commodities and futures exchanges or over the counter transactions and related to the operational activities of the company).

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%. On July 1, 2015, Decree No. 8,426 came into effect, which restored PIS on financial revenues at a rate of 0.65%, except for some types of financial revenues (for example, revenues from foreign exchange variations of exportation of goods and services, revenues resulting from foreign exchange fluctuations of obligations undertaken by the company, including loans and financing and revenues related to hedging transactions on stock exchange values, and revenues from commodities and futures exchanges or over the counter transactions and related to the operational activities of the company).

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

Table of Contents

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 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. 627/2013, 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. 627/2013 allows taxpayers to choose either to maintain RTT in 2014 or to be subject to the provisions contained in the Provisional Measure No. 627/2013. Although taxpayers were permitted elect to maintain RTT treatment in 2014, for financial year 2016 they were obligated to adopt the new IFRS accounting rules.

Another substantial change brought about by Provisional Measure No. 627/2013 is the treatment of dividends. Generally, dividends paid up to the limit of the 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.

In May 2014, Provisional Measure No. 627 was converted into Law No. 12,973, the main objective of which was to implement the new tax regime, adapted to the new accounting guidance provided by IFRS, ending the RTT. Given that the implementation requires specific adjustments to promote the elimination of the effects of registration of the new accounting methods and criteria to the statutory books, some assets and liabilities now have different methods and accounting criteria from those previously adopted by the former accounting rule. Law No. 12,973 establishes as a condition for the accurate tax treatment of these differences to impact only at the time of the realization of these assets or liabilities the creation of subaccounts for individualized control. The treatment is the same in regards to present value adjustments and fair value adjustments.

Table of Contents

The rules for deductibility of goodwill were maintained for the transactions which occurred or will occur prior to the end of 2017. The tax treatment by TIM Celular of the goodwill arising from the purchase of the companies AES Atimus SP and RJ will not be impacted by the new rules.

Regarding dividends, Law No. 12,973 ensures the full and unconditional exemption on payment or credit of profits or dividends earned between January 1, 2008 and December 31, 2013, previously paid or not. Uncertainty remains, however, about the exemption on profits and dividends generated in the calendar year 2014, if higher than the taxable income in the same period in the case of companies that do not opt for early adoption of the new post-RTT tax regime that year.

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 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

Table of Contents

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, landline services known as Commuted Fixed Telephonic Service (*Serviço Telefônico Fixo Comutado*), or STFC and data communication known as Multimedia Service of Communication (*Serviço de Comunicação Multimedia*), or SCM.

Anatel may regularly alter these standards based on changes in technology, in particular regarding PCS technology, which are common to the telecommunications sector. In order to allow operators to plan for the implementation of these policies, Anatel approved a General Plan of Update of Telecommunications Regulation in Brazil (*Plano Geral para Atualização da Regulamentação das Telecomunicações no Brasil*), or PGR, pursuant to which it established short-, medium-, and long-term policies for two, five, and ten-year terms, respectively. Anatel has authority to propose and to issue regulations that are legally binding on telecommunications service providers. Any proposed regulation or action by Anatel is subject to a period of public comment, which may include public hearings, and may be challenged in Brazilian courts. This regulation process takes into consideration Anatel's specialized analysis of different areas of the telecommunication sector and matters resulting from public hearings, 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 RFs, 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 in the 2,500 MHz band to the 450MHz band in specific geographic regions of Brazil. As a result, the four winning operators of the 4G blocks in the 2,500 MHz band 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 PGMU, creating fixed line universal service obligations binding on the STFC concessionaires.

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.

In 2016, Anatel issued certain regulations which are particularly relevant to our operations, including: Resolution No. 663/2016, which modified rules of the MVNO Regulation; Resolution No. 667/2016, which approved the General Regulation of Accessibility in Telecommunications Services of collective interest; Resolution No. 668/2016, which modified the STFC Regulation; and Resolution No. 671/2016, which approved the Regulation on the Use of the Radiofrequency Spectrum and modified the Regulation on the Collection of Public Price for the Right of Use of

Radiofrequencies and the Regulation on the Imposition of Administrative Sanctions.

Throughout 2016, Anatel issued other important regulations and public consultations that will have great impact on TIM and Intelig's activities, particularly those summarized below:

· **Interconnection:** Review and update of interconnection rules

· **Competition:** Periodic review of the PGMC

· **Infrastructure Sharing:** Definition of rules for the sharing of telecommunications infrastructure

· **Fixed Broadband:** Discussions of protective measures about the suspension of "data cap plans"

· **Electronic Process:** Definition of rules and procedures for the adoption of the electronic process

· **Service Availability:** Establishment of a regulation on the availability of telecommunications services

Table of Contents

Review of the current regulatory model for the provision of telecom services

It is a goal of the Brazilian government to review the 1997 General Telecommunication Law and to transform the old fixed telephony concessions into authorizations, modifying the relevant and related obligations.

On April 11, 2016, the Ministry of Communications issued guidelines to be followed by Anatel when implementing this transformation, moving to a more market-oriented licensing approach. These guidelines were issued following a public consultation which ended on January 15, 2016.

In general terms, the Ministry's guidelines establish that public authorities should promote access to broadband service at affordable costs and levels, putting broadband at the center of public policies.

In this sense, Anatel is expected to:

- propose concrete rules and criteria to enable the phasing-out of concessions;
- highlight the consistency of the new licensing rules with the existing infrastructure coverage obligations;
- ensure service provision (including broadband) in less attractive economic areas;
- give incentives to concessionaires to migrate to the new licensing framework;
- lessen obligations for fixed telephony;
- schedule the phasing-out of the retail price control over retail fixed telephony services;
- withdraw recurring licensing fees;
- schedule the phasing out of the asset reversion scheme (foreseeing that the network assets used to provide services under a concession must be returned to the state upon the expiry of the concession); and

establish suitable mechanisms to ensure regulation compliance control.

As a result of the ongoing debate regarding the licensing regime, ANATEL was tasked with reviewing concession contracts by December 2016. However, after the publication of Resolution 673, approved on December 30, 2016, the deadline for reviewing these contracts was postponed to June 30, 2017.

Meanwhile, a bill that proposes changes to Law 9.472/1997 (General Telecommunication Law) and allows Anatel to change the licensing mode of telecommunications service is under review in the Brazilian Senate. According to the proposal, upon request of the STFC concessionaires, Anatel may authorize the migration of the concession agreements to authorizations, subject to the observance of certain requirements. Anatel will be responsible for determining the economic value associated with the migration, which shall be applied in investment commitments, prioritizing the implementation of network infrastructure for high capacity data communication in locations without appropriated competition.

The bill also proposes changes in the radiofrequency rules, allowing subsequent and unlimited renewals, up to 20 years each, generating an environment possibly more conducive to long-term investments. In addition, the bill favors the creation of a spectrum secondary market, allowing transfers of radiofrequency authorizations between players, upon Anatel's approval. The economic and operational conditions will be defined by Anatel.

If the Senate approves the bill without changes in relation to the proposal approved by the House of Representatives, but it still has to be submitted for Presidential approval.

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 SMC or *Serviço Móvel Celular*, or Cellular Mobile Service, regulations. Each concession was a specific grant of authority to supply mobile telecommunications

Table of Contents

services in a defined geographical area, subject to certain requirements contained in the applicable list of obligations attached to each concession.

Under its PCS regime, Anatel 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.

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. 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 RF terms, formalizing the acquisition of excess RF 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), which terms expire in October 2027.

In December 2014, we acquired the 718-728 MHz and 773-783 MHz sub-bands, with national coverage; these authorizations are valid until 2029. These sub-bands are partially available for mobile operation since broadcasters are still using them, or Anatel's approval required for their usage is still pending. The mobile operations on those sub-bands may only begin after the reallocation of broadcasting channels and following approval by Anatel and interference mitigation. TIM Celular currently provides services with the use of the 700 MHz band in Rio Verde, in the state of Goiás, and Fernando de Noronha, in the state of Pernambuco.

On March 4, 2015, by Decision No. 66/2015-CD, Anatel approved our renewal application related to the 4G Block (2500 MHz P Band) in Minas Gerais, and also approved our renewal application concerning the authorization terms of the D and E Bands (900 MHz and 1800 MHz). On July 22, 2015, Authorization Act No. 4710/2015-CD was issued (and subsequently published in the Official Gazette of July 28, 2015), extending the use of the aforementioned authorizations terms, until 2030 and 2028, respectively.

In December 2015, Anatel auctioned left over radiofrequencies in the 1,800 MHz, 1,900 MHz and 2,500 MHz bands. We submitted bids for the left over lots of the 2,500 MHz 4G band, which had originally been auctioned in 2012. We were classified as the first-ranked bidder in the lots for Recife, in the state of Pernambuco, and Curitiba, in the state of Paraná, based on our bids which totaled R\$57.5 million. The corresponding authorization terms were excluded by Anatel in July 2016.

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

The following table shows each of our authorizations in effect on December 31, 2016:

Territory	450 MHz	800 MHz, 900 MHz and 1800 MHz	Additional Frequencies 1800 MHz	1900 MHz and 2100 MHz (3G)	2500 MHz V1 Band (4G)	2500 MHz P Band** (4G)	700 MHz
States of Amapá, Roraima, Pará, Amazonas and Maranhão	—	March, 2031	April, 2023	April, 2023	October, 2027	PA – February, 2024*	December, 2029
States of Rio de Janeiro and Espírito Santo	October, 2027	March, 2031	ES – April, 2023	April, 2023	October, 2027	RJ – February, 2024*	December, 2029

Table of Contents

Territory	450 MHz	800 MHz, 900 MHz and 1800 MHz	Additional Frequencies 1800 MHz	1900 MHz and 2100 MHz (3G)	2500 MHz V1 Band (4G)	2500 MHz P Band** (4G)	700 MHz
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, 2031	April 2023	April, 2023	October, 2027	Curitiba – PR July, 2031 DF – February, 2024*	December, 2029
State of São Paulo	—	March, 2031	Interior – April, 2023—	April, 2023	October, 2027	—	December, 2029
State of Paraná (except for the cities of Londrina and Tamarana)	October, 2027	September, 2022*	April, 2023	April, 2023	October, 2027	February, 2024*	December, 2029
State of Santa Catarina	October, 2027	September, 2023*	April, 2023	April, 2023	October, 2027	—	December, 2029
City of Pelotas and its surrounding region in the State of Rio Grande do Sul	—	April, 2024*	—	April, 2023	October, 2027	—	December, 2029
State of Pernambuco	—	May, 2024*	—	April, 2023	October, 2027	Recife July, 2031	December, 2029
State of Ceará	—	November, 2023*	—	April, 2023	October, 2027	—	December, 2029
State of Paraíba	—	December, 2023*	—	April, 2023	October, 2027	—	December, 2029
State of Rio Grande do Norte	—	December, 2023*	—	April, 2023	October, 2027	—	December, 2029
State of Alagoas	—	December, 2023*	—	April, 2023	October, 2027	—	December, 2029
State of Piauí	—	March, 2024*	—	April, 2023	October, 2027	—	December, 2029
State of Minas Gerais (except for the cities in sector 3 of PGO for RF of 3G and excess RF)	—	April, 2028*	April, 2023	April, 2023	October, 2027	February, 2030	December, 2029

States of Bahia and Sergipe	—	August, 2027*	—	April, 2023	October, 2027	—	December, 2029
-----------------------------	---	------------------	---	----------------	------------------	---	-------------------

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

** Only covers complementary areas in the specified states.

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. From July 2012, Intelig currently provides local fixed telephone service while TIM Celular provides the national and international long distance telephone service, under the selection code 41.

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). With these new acquisitions, TIM Celular not only significantly expanded its operations in the

Table of Contents

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.

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 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. Anatel is likely to launch a new public consultation in 2017, in order to review the quality framework.

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 rules allowed companies to provide wireless telecommunications services under PCS authorizations. The PCS authorizations allowed 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 its rules and 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. In the year

Table of Contents

ended December 31, 2016, the total amount of these fines was R\$98.9 million. However, only R\$29.3 million was 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 PCS regulations, we were required to adjust our operating processes and agreements to such 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 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 2014, by means of Resolution No. 632/2014, Anatel approved the adoption of a single regulation for the telecommunications sector (*Regulamento Geral de Direitos do Consumidor de Serviços de Telecomunicações*), or RGC, with general rules for customer service, billing, and service offers, which are applicable to fixed, mobile, broadband and cable TV customers.

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 considered to have 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. On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, TU-RL, and EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as BU-LRIC is applied (2019, for VU-M and TU-RL; and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016. Because of our classification as having significant market power in the national roaming market, we must also offer roaming services to other mobile providers without significant market power at the rates approved by Anatel. 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.

On December 5, 2016, Anatel published public consultations on (i) the revision of PGMC's relevant markets and remedies, and (ii) the proposal of a specific Regulation for the Approval of Reference Offers, for public

Table of Contents

comment until March 22, 2017. Anatel will analyze all the contributions to the consultations and the final approval will likely occur by the end of 2017.

According to the PGMC proposal, cities in Brazil will be classified by levels of competition (1 – competitive, 2 – moderately competitive, 3 – less competitive, 4 – non-competitive), and asymmetric measures will be applied according to the market competition. In addition, also based on the proposal submitted to public consultation, wholesale relevant markets will be defined as follows:

PGMC (2012)

- Wholesale mobile call termination
- National roaming
- Full unbundling and bistream, or, Wholesale fixed network infrastructure access less than 10 Mbps
- Leased lines, interconnection class V, interlinking, or, Wholesale fixed network infrastructure transport less than 34 Mbps
- Ducts, trenches and towers, or, Passive infrastructure
-
-

PGMC Revision (Public Consultation)

- Wholesale mobile interconnection
- National roaming
- Wholesale fixed network infrastructure access
- Leased lines
- Passive infrastructure – redefined
* towers regulated by law
- Wholesale fixed interconnection
- High capacity data transport

Drafts of the acts whereby Anatel will designate the groups that have significant market power in each relevant market, also submitted to public consultation, indicate that we could be identified as having significant market power in the wholesale relevant markets of mobile interconnection and national roaming.

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

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.

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.

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, through Resolution 600, Anatel decided that the VU-M reference rates in 2014 would be 75% of the valid VU-M in 2013, and in 2015 by 50% of the valid VU-M in 2013. Based on that, in December 2013, VU-M prices for 2014 and 2015 were published in accordance with Resolution No. 600.

In addition to the VU-M reduction, Anatel established a B&K rule between significant market power and non-significant market power PCSs. From January 2013 until February 2015, the B&K was 80%/20%. On February 12, 2015, Anatel approved, by means of Resolution No. 649/2015, the following new B&K percentages, amending the

Table of Contents

percentages established by Resolution 600: 75%/25%, from 2015 until 2016; 65%/35%, from 2016 until 2017; 55%/45%, from 2017 until 2018; and 50%/50%, from 2018 until 2019, which was the object of a judicial suit (on going), in order to suspend its effects. After 2019, the VU-M will be charged by the significant market power whenever their network is used to originate or to finish a call. In July 2015, we filed a lawsuit seeking to annul Resolution No. 649/2015 and maintain the percentages originally established by Resolution 600, which currently remains pending a final decision.

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. With respect to interconnection of STFC operators with long distance and mobile operators, we understand that, in 2012, when Anatel issued PGMC, the asymmetrical measure that permitted STFC operators without significant market power to charge a TU-RL 20% higher than the TU-RL charged by STFC operator, with significant market power was revoked. In September 2016, we filed a lawsuit on this subject, which is still pending a final decision.

On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, TU-RL, and EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as BU-LRIC is applied (2019, for VU-M and TU-RL; and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016.

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 specific price inflation index developed by the Agency, in evaluating prices and determining the relevant cap for prices charged in the telecommunications industry. As mentioned above, on July 4, 2014, Anatel approved the calculation of VU-M, TU-RL and EILD reference rates based on a cost model. We expect that the adjustment of our prices will follow the market trend, and that the adjustment will be below the annual inflation rate based on the IST. If this new inflation adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

Number Portability

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

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, when offered to users on a single basis, by parties other than telecommunications service providers, 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. In such case, Internet connection would be deemed as a portion of the telecommunications service that enables users to navigate the Internet.

In April 2014, the Brazilian President passed Law No. 12,965 of 2014, known as the Legal Framework for the Use of the Internet (*Marco Civil da Internet*), or the Internet Framework, which establishes the principles, guarantees, rights and duties for the use of the Internet in Brazil.

Table of Contents

Key topics covered in the Internet Framework are: net neutrality; collection, use and storage of personal data; confidentiality of communications; freedom of expression and the treatment of illegal, immoral or offensive contents.

The Presidential Decree No. 8,711/2016 was enacted by the Brazilian President on May 11, 2016. Recently provided additional detail on the Internet Framework in three main aspects:

- clarification of the scope and implementation of the net neutrality rules;

- implementation of the rights and obligations related to privacy and data protection regarding Brazilian Internet users; and

- governance of the Internet Framework, including authorities entitled to enforce the legislations.

The decree entered into force on June 10, 2016.

Frequencies and Spectrum Background

We have a license to operate PCS services in the 450 MHz, 700 MHz, 800 MHz, 900 MHz, 1.8 GHz, 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.

We requested a renewal of our authorizations for the D and E bands (1800 and 900 MHz frequencies) in September 2013, given that the initial term for which the authorization was expiring. The process was reviewed by Anatel, which handed down a decision based on formal legal opinion by the Federal Attorney General on the matter. According to such decision, TIM was entitled under the current rules to a renewal of our authorizations for the D and E bands, starting from March 2016.

On March 4, 2015, by Decision No. 66/2015-CD, Anatel approved our renewal application concerning the authorization terms for the D and E Bands based on the Federal Attorney General's decision. As a result, our authorization term for the usage of these radiofrequencies was extended for 15 years, starting from March 2016. On July 22, 2015, this decision was formalized through the issuance of Authorization Act No. 4710/2015-CD, later published in the Official Gazette of July 28, 2015.

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 RF capacity in these regions. Within the same auction, Claro and Vivo acquired authorizations to provide PCS services in regions where we had historically provided services but where Claro and Vivo previously did not, using 1800 MHz and 1900 MHz bands. This 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).

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, at the time a new entrant in the GSM market, which had 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.

Table of Contents

TIM won individual block of frequencies in five service areas, strengthening its presence in the North, Santa Catarina, Minas Gerais and Paraná, bidding a total of R\$81.8 million, to 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 RF 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 were effective in June 2014. In December 2013, we launched 4G in Natal, ahead of Anatel's required schedule. As of December 2014, we have been providing 4G coverage in compliance with the schedule required by Anatel. 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, of the 700MHz spectrum, exclusively to mobile services.

In September 2014, Anatel concluded the 700 MHz spectrum auction that granted to TIM, Vivo, Claro and Algar the operation of the 700 MHz frequency for the 4G mobile technology, to be added to the current LTE service in the 2.5 GHz RF. We bid on Block 2 of that auction, for national coverage of the 700 MHz band, and won the same with a bid of R\$1.947 billion (a 1% premium over the minimum price of R\$1.927 billion). The 700MHz spectrum, with its long range and good penetration characteristics, is very important to the expansion of the mobile data network in the country, offering even better 4G navigation quality to customers and allowing service to reach a greater number of users, supporting both rural obligations and city coverage. Another benefit of our acquisition of Block 2 of the 700MHz spectrum is the potential for economies of scale with respect to equipment and synergy with the Asia-Pacific Telecommunity, or APT, band plan and the European digital dividend for the spectrum.

The auction also required the winning bidders to proportionally reimburse the broadcasters for the clean-up of the spectrum previously held and used by them. We have spent R\$1.199 billion in order to create in March 2015 an entity called the Entity for Administration of TV and RTV Channel Relocation and Digitalization Process, or EAD, with the other winning bidders, to ensure the spectrum clean-up. The price allocated to clean-up of the spectrum related to unsold blocks was shared proportionately among the winning bidders who bought the other blocks. To

Table of Contents

offset such additional cost to the winning bidders, the price of the 700 MHz spectrum was discounted using Anatel's WACC methodology. In December 2014, we paid R\$1.678 billion and recorded R\$61 million as a debt in our financial statements as of December 31, 2014 (see Note 14(f) to our consolidated financial statements).

The Authorization Terms for usage of the 700 MHz spectrum were signed in December 2014 and the Articles of Association and By-laws of EAD were filed on March 2, 2015.

In December 2015, Anatel auctioned left over radiofrequencies in the 1,800 MHz, 1,900 MHz and 2,500 MHz bands. We submitted bids for the left over lots of the 2,500 MHz band which had originally been auctioned in 2012. This particular band spectrum provides for 4G mobile services. We were classified as the first ranked bidder in the lots for Recife, in the state of Pernambuco, and Curitiba, in the state of Paraná, based on our bids which totaled R\$57.5 million. The corresponding authorization terms were executed by Anatel in July, 2016.

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 General License Plan (*Plano Geral de Autorizações*), or PGA, which began on November 1, 2010. We declined to do so and instead chose to commercially negotiate VU-Ms with different providers. Under applicable regulations, VU-M rates could be negotiated among operators with reference rates only applied by Anatel in case of dispute.

In 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. 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 accordance with Resolution No. 600 for 2014 and 2015.

We believe, however, that when Anatel adopted such decisions, it failed to observe the proper administrative process required to issue new regulations. We filed an annulment application with Anatel in connection with the November 2012 resolution, which was denied by Anatel in November 2014.

On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, TU-RL, and EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as BU-LRIC is applied (2019, for VU-M and TU-RL; and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016.

It is our position that Anatel's decision to establish VU-M rates – a price related to the provision of telecommunications services in the private regime – based on a cost model does not comply with Brazilian law. Accordingly, we filed an annulment application with Anatel in connection with the July 2014 resolution, which was rejected by Anatel. As the result of the revaluation of our strategy due to new commercial conditions, we decided not to pursue judicial discussion of that matter.

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

Table of Contents

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.

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, as well as to only offer EILD through a specific system designed for the PGMC. In September 2013, Anatel approved, for the first time, reference prices and offers of the operators with significant market power in the EILD market. At least every six months new reference prices and offers must be submitted for Anatel's approval. We are not currently classified as having significant market power in the EILD market.

On July 4, 2014, Anatel approved, by means of Resolution No. 639/2014, a rule for the definition of maximum reference rates for entities with significant market power, based on a cost model, for VU-M, TU-RL, and EILD. Pursuant to Anatel's rule, reference rates will decline based on a glide path until the cost modeling known as BU-LRIC is applied (2019, for VU-M and TU-RL; and 2020, for EILD). On July 7, 2014, Anatel published the corresponding Acts No. 6,210/2014, 6,211/2014 and 6,212/2014, which determined the specific reference rates effective as of February 2016.

We have started discussions to apply the EILD reference rates based on cost model to the existing agreements we have with operators with significant market power in the EILD market. Administrative and judicial disputes were initiated and are still ongoing.

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 industrial exploitation of the dedicated lines, or EILD and unbundling.

In July 2014, Anatel published the final decision regarding the cost modeling to set the wholesale reference values for the fixed and mobile access and interconnection services, as well as the maximum reference values for leased lines.

Anatel established that fixed termination rates, or TU-RL and VU-M are cost oriented starting from February 2016 and reaching the efficient cost level based on BU-LRIC model in 2019. For EILD, the efficient cost level will only be reached in 2020. See “Risks Relating to the Brazilian Telecommunications Industry—Anatel classified us as an economic group with significant market power in some markets and now subject to increased regulation.”

Anatel signalled that all products (not only call termination rates and leased lines) will be cost oriented from the revision of the PGMC. In October 2016, all operators had to answer a data request from Anatel which intended to gather the necessary data to update the cost model for all the products in the PGMC, such as national roaming and passive infrastructure. 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 RF, determining that, after a period of 360 days from the publication, the use of analog technology in RF sub bands of 800 MHz would no longer be allowed.

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

The implementation of the RuralCel service was carried out by the companies in the Telebrás system, prior to the privatization process in 1998. Once the privatization of these companies was completed, SMC operators are required to keep sharing such infrastructure (mobile networks with analog technology) with STFC concessionaires

Table of Contents

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 the first half of 2016. We continue to interact with the regulating agency regarding the shutdown of our analog mobile networks and with STFC concessionaires in respect of the migration of their subscribers from our analog networks in connection with our deactivation thereof. After prioritizing the activities of the STFC concessionaires (directly involving Oi), it was possible to move forward at an accelerated pace with the scheduled disconnection of these subscribers. Oi has requested the maintenance of 24 public phones, in the states of Santa Catarina (15) and Pernambuco (9) by January 2017.

In December 2016, Anatel approved Resolution No. 672/16, which prohibited the use of analog technology in the radiofrequency sub bands of 800 MHz, 900 MHz, 1.800 MHz, 1.900 MHz and 2.100 MHz. 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, Oi has presented a 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.

Anatel is likely to launch a new public consultation in 2017, in order to review the quality framework.

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

Table of Contents

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 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. Beginning on November 2, 2014, referred to as "D Day", the ninth digit was implemented in the states of Amapá, Amazonas, Maranhão, Pará and Roraima. On May 31, 2015, cellular numbers in the states of Pernambuco, Alagoas, Paraíba, Rio Grande do Norte, Ceará and Piauí acquired the ninth digit, and on October 11, 2015, the same was implemented in the states of Minas Gerais, Bahia and Sergipe. In 2016, the program was concluded and the ninth digit was successfully implemented in all remaining states.

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. 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

We are part of the Telecom Italia Group, which 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. The operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic—Italy, Brazil and, until March 8, 2016, Argentina). We are currently held, directly and indirectly, by Telecom Italia through its wholly owned subsidiary, TIM Brasil. In turn, the single largest shareholder of Telecom Italia is Vivendi, which is able to exercise significant influence over Telecom Italia.

Table of Contents

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).

The following chart illustrates our current ownership structure:

D. Property, Plants and Equipment

Our principal properties consist of transmission equipment, switching exchanges and gateway equipment, which connect calls to and from customers and enables data traffic connections, 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, 2016, we had 14,459 NodeB and 11,645 (including all partners' equipment) eNodeB, 12,902 BTS and more than 75 thousand kilometers in fiber optic networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed. Over the course of financial year 2016, we had leased approximately 106,000 square meters of real property, all of which was available for office space. We also lease approximately 2,000 square meters of commercial office space, and 25,000 square meters of stores operated by us. There are no material encumbrances that may affect our utilization of our property or equipment. All of our property and equipment is owned or leased domestically; we do not own or lease any property or equipment outside of Brazil.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

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 and for the years ended December 31, 2016 and 2015 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."

In the first quarter of 2016, the Company identified errors related to revenue recognition for prepaid credits sold by trading partners in prior years and/or periods. Based on the quantitative and qualitative analysis performed by the company's management, it was concluded that such adjustments were immaterial in the last three years. However, because of the significance of the cumulative out-of-period adjustment to the annual financial statements as of December 31, 2016, the previous financial statements for the fiscal years ended December 31, 2015 and 2014 were revised.

Table of Contents

Brazilian Political and Economic Overview

Brazilian Economy

In 2016, the Brazilian economy experienced another year of gross domestic product (GDP) contraction of 3.6%, along with high interest rates and unemployment of 11.5%, despite the beginning of a political and fiscal stabilization in the second half of the year, with a 16.5% appreciation of the *real*. Growth is expected to resume at a modest pace in 2017 due to tighter monetary and fiscal policies, slow external recovery and low levels of investment. Standard & Poor's, Fitch and Moody's kept a rating for the country below investment grade, based upon a significant fiscal and economic challenges, implying the need for a firmer commitment to stable fiscal policies. Such status has further worsened the conditions of the Brazilian economy and the condition of Brazilian companies.

The inflation rate, measured by IPCA, was 6.3% in 2016, significantly above the 4.5% rate targeted by the Central Bank, but below the "oscillating" band of plus or minus two percentage points considered acceptable by Central Bank. A chief cause of this inflation was the increase by 8.6% in the price of food and by 11.4% in the price of healthcare. Inflation has decreased monthly throughout 2017, as measured by the IPCA-15, which records inflation from approximately the 15th of the previous month to the 15th of the current month, by 5.94% over the month of January, 5.02 % over the month of February, and 4.73% over the month of March, as compared with the previous 12 months.

Inflation directly impacts our results of operations as certain of our assets and liabilities are subject to monetary adjustments by reference to indexes that measure or are impacted by inflation such as IPCA, TJLP or SELIC. In 2016, the net impact of inflation adjustments was a loss of R\$207 million and in 2015, was a loss of R\$121 million. The loss in 2016 can be explained by inflation adjustments on a R\$37 million loan and on a R\$2,068 million loan, each from BNDES (see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of Funds—Financial Contracts") and, to a lesser extent, losses due to inflation adjustment on provisions for the aggregate contingency value of public civil actions and lawsuits pending against us (see "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings"). 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.

Over the past few years, the *real* has significantly and continuously devalued as against the dollar. 2016 was marked by a reversal of this trend, when the *real* appreciated 16.5% as compared to 2015. This was a result of the change of government, new economic policies and also the recovery of commodities' prices. The currency ended the year at R\$3.2591 per U.S.\$1.00. As of December 31, 2015 the exchange rate was R\$3.9048, a 47.0% of devaluation compared to 2014.

The Brazilian current account closed the year with a deficit of U.S.\$23.5 billion or 1.3% of GDP, decreasing 60.4% compared to 2015, which reached U.S.\$59.4 billion, 3.3% of GDP, the best result since 2007. The trade balance ended 2016 with a surplus of U.S.\$47.7 billion, up 142% as compared to 2015, despite a 3% reduction in exports, but offset by the sharp drop in imports 20%. The federal public debt ended 2016 in the range planned by the annual financial plan with an amount of R\$3.1 trillion, up 11.4% compared to 2015, the highest level since 2004. See “Item 3. Key Information—A. Selected Financial Data” for further information regarding Brazilian governmental fiscal and monetary policies related to the above factors.

Brazilian Mobile Market

The Brazilian mobile market reached 244 million lines nationwide at the end of December 2016, corresponding to a penetration ratio of 118.0% (compared to 125.7% in 2015) and an annual contraction rate of 5.3% (compared to the 8.2% annual contraction rate as of December 2015). Brazil is the fifth largest mobile telephony market in the world, and telephony is currently the most common means of communication in Brazilian households among all social classes. According to Anatel, mobile market net adds were negative at 13.75 million in 2016, representing a slowdown in the contraction as compared to the decrease in 2015 of 22.94 million net adds. This reflects the overall reduction in the number of customers in the Brazilian mobile telecommunications market (in particular the prepaid market), as users which previously held multiple SIM cards are consolidating to one single SIM card due to adverse macroeconomic pressures, the high penetration of mobile service and the rapid substitution of voice by data usage,

Table of Contents

resulting in an important reduction in the so-called “community effect” where consumers value a telecommunications system more as more users adopt it. Although the Brazilian telecommunications market’s prepaid customer base has contracted by 10.8% (or 19.84 million lines) over the course of 2016, to 165 million lines, it still continues to represent the market’s largest component, constituting 67.5% of total subscriber base as of December 31, 2016 as compared to 71.6% as of December 31, 2015.

As of December 31, 2016, we are the second largest provider of mobile telecommunication services in Brazil based on the number of phone lines, with a subscriber base of 63.42 million lines (a 5.2% decrease from our 2015 subscriber base of 66.2 million lines) and a market share of 26.0% in 2016 compared to market share of 25.7% in 2015, based on data from Anatel. We are the leader in the important prepaid business, with 48.54 million clients as of December 31, 2016 (a 7.8% decrease from 2015). Our postpaid business, reached 14.88 million users as of December 31, 2016 (a 9.6% increase from 2015) and accounted for 23.5% of our total subscriber base (compared to 20.5% in 2015). In 2016, our total customer base fell by 2.82 million (compared to a reduction of 9.49 million in 2015), largely as a result of the overall trend of prepaid business disconnections, which amounted to 4.12 million in the year.

ARPU is a key performance indicator which is calculated for any period as total net service revenue divided by average customer base. Our ARPU was R\$18.01 in the year ended December 31, 2016, an increase of 7.9% when compared to an ARPU of R\$16.68 for the year ended December 31, 2015, largely due to the new portfolio of offerings, which continue to bring higher value customers in all segments (prepaid, control and postpaid). See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

In 2016, our average customer base, calculated as the simple mean of monthly averages, decreased 11.7% to 65.1 million, compared to 73.9 million customers in 2015.

The following table shows the total average number of customers during 2016, 2015 and 2014.

	Year ended December 31,		
	2016	2015	2014
	(in thousands of users)		
Average number of customers using postpaid plans ⁽¹⁾	13,964	13,329	12,271
Average number of customers using prepaid plans ⁽¹⁾	50,926	60,199	62,128
Total number of customers ⁽¹⁾	64,890	73,528	74,399

(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. We define customers as the number of active lines, or SIM cards, on our

network.

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.

Accounting estimates and judgments are continuously reassessed. They are based on the Company's historical experience and other factors, such as expectations of future events, considering the circumstances presented as at 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 that present significant risk with probability to cause relevant adjustments in the book values of assets and liabilities for the next fiscal years are shown below. We also describe our significant accounting policies, including the ones discussed below, in Note 3 to our consolidated financial statements.

Table of Contents

Loss on Impairment of Non-Financial Assets

Losses from impairment take place when the book value of assets or cash generating unit exceeds the respective recoverable value, which is considered as the fair value less costs to sell, or the value in use, whichever is greater. The calculation of the fair value less costs to sell is based on the information available from sale transactions involving similar assets or market prices less the additional costs incurred to dispose of those assets. The value in use is based on the discounted cash flow model. Cash flows derive from the Company's business plan. Since this is an ongoing business as from the fifth projection year a perpetuity of nominal growth of cash flows was estimated.

Any reorganization activities to which the Company has not committed itself on the financial statements disclosure date on which the financial statements are reported or any material future investments aimed at improving the asset base of the cash generating 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 future cash receivables and the growth rate of revenue and expenses used for extrapolation purposes. Adverse economic conditions may lead to significant changes in these assumptions.

At December 31, 2016 and 2015, the principal non-financial assets valued in this way were goodwill recorded by the Company (see Notes 3(a) and 15 to our consolidated financial statements), and the fair value of goodwill was substantially in excess of its net book value.

Income Tax and Social Contribution (Current and Deferred)

Income tax and social contribution (current and deferred) are calculated in accordance with interpretations of the legislation currently in force. This process normally includes complex estimates in order to define the taxable income and differences. 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 and can be offset. The recoverability of the deferred income tax on tax and social contribution losses and temporary differences takes into account estimates of taxable income (see Notes 3(b) and 10 to our consolidated financial statements).

Provision for Legal and Administrative Proceedings

Legal and administrative proceedings 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 the judgment of our management (see Notes 3(c) and 24 to our consolidated financial statements).

Fair Value of Derivatives and Other Financial Instruments

Financial instruments presented at fair value in the balance sheet are measured using evaluation techniques that considers observable data or observable data derived from the market (see Notes 3(d) and 39 to our consolidated financial statements).

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 already earned by the Company but 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.

Sale and leaseback

A sale and leaseback transaction is one where the group sells an asset and immediately reacquires the use of the same asset by entering into a lease agreement with the buyer. The accounting treatment of the sale and leaseback transaction depends upon the substance of this transaction (by applying the principles of lease classification) and whether or not the sale was made at the asset's fair value.

Table of Contents

For financial sale and leaseback, the total gain is deferred and amortized over the lease term. For operational sale and leaseback, generally the assets are sold at fair value, and consequently, the gain or loss from the sale is immediately recognized in the income statement.

At the beginning of the lease term, the Company recognizes finance leases as assets and liabilities in its balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the beginning of the lease.

The discount rate used in a sale and leaseback transaction is determined based on observable market transactions where the lessee would have to pay on a similar lease or borrowing arrangement contract or loan. As mentioned in note 1.b to our consolidated financial statements, discount rates applied by management in the transactions carried out during the year were decisive for the calculation of the portion of the gain recorded through profit and loss, as well as the portion of deferred gain and amortized over the lease term.

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—Regulation of the Brazilian Telecommunications Industry—Rate Regulation.” Our financial condition and results of operations have also been, and are expected to continue to be, affected by the political and economic environment in Brazil. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil.”

In particular, our financial performance will be affected by:

- 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;

- system technology failures, which could negatively affect our revenues and reputation;

the introduction of transformative technologies that could be difficult for us to keep pace with and which could cause a significant decrease in our revenues and/or revenues for all mobile telephone carriers;

our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of political and economic conditions in Brazil and uncertainties in credit and capital markets;

- our ability to attract and retain qualified personnel;

performance of third party service providers and key suppliers on which we depend, such as any difficulties we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weakness of our suppliers;

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

- the effect of exchange rate fluctuations;

- the effect of inflation;

Table of Contents

· the outcome of litigation, disputes and investigations in which we are involved or may become involved; and

the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

The following table shows certain components of our statement of operations for each year in the three-year period ended December 31, 2016, as well as the percentage change from year to year.

	Year ended December 31,			Percentage change	
	2016	2015 (Revised) (1)	2014 (Revised) (1)	2016 – 2015 (%)	2015 – 2014 (%)
Net Operating Revenues	15,617,413	17,142,265	19,502,116	(8.9)	(12.1)
Cost of services and goods	(7,693,406)	(8,306,857)	(10,083,920)	(7.4)	(17.6)
Gross profit	7,924,007	8,835,408	9,418,196	(10.3)	(6.2)
Operating expenses:					
Selling expenses	(4,719,029)	(4,822,974)	(5,029,870)	(2.2)	(4.1)
General and administrative expenses	(1,258,722)	(1,195,277)	(1,130,754)	5.3	5.7
Other operating expenses	(522,061)	434,283	(775,032)	n.a.	n.a
Total operating expenses	(6,499,812)	(5,583,968)	(6,935,656)	16.4	(19.5)
Operating income before financial results	1,424,196	3,251,440	2,482,541	(56.2)	31.0
Net financial results	(410,880)	(250,406)	(280,642)	64.1	(10.8)
Operating income before taxes	1,013,316	3,001,034	2,201,899	(66.2)	36.3
Income and social contribution tax benefit	(262,889)	(915,591)	(652,796)	(71.3)	40.3
Net income	750,427	2,085,443	1,549,102	(64.0)	34.6

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”.

Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

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 27 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 2016 and 2015:

Table of Contents

Statement of Operations Data: Operating Revenues

	Year ended December 31,		Percentage change
	2016	2015 (Revised) (1)	2016 – 2015 (%)
	(in millions of <i>reais</i>)		
Monthly subscription charges and usage charges	8,018.8	9,767.6	(17.9)
Fixed services	1,178.9	1,003.2	17.5
Interconnection charges	1,102.5	1,581.8	(30.3)
Long distance charges	2,101.8	2,710.7	(22.5)
Value-added services	8,548.0	7,741.8	10.4
Other service revenues	417.9	319.6	30.8
Gross operating revenues from services	21,367.8	23,124.6	(7.6)
Value-added and other taxes relating to services	(5,358.7)	(5,680.1)	(5.7)
Discounts and returns on services	(1,288.8)	(2,057.0)	(37.3)
Net operating revenues from services	14,720.3	15,387.2	(4.3)
Sales of mobile handsets and accessories	1,377.8	2,646.9	(47.9)
Value-added and other taxes on handset sales	(336.2)	(567.9)	(40.8)
Discounts and returns on handset sales	(144.5)	(323.9)	(55.4)
Net operating revenues from handset and accessory sales	897.2	1,755.0	(48.9)
Net operating revenues	15,617.4	17,142.3	(8.9)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”.

Our gross service revenue for the year ended December 31, 2016 was R\$21,367.8 million, representing a 7.6% decrease from R\$23,124.6 million in the year ended December 31, 2015, mainly due to major changes in usage patterns primarily a shift from voice to data usage and the related trend of SIM card consolidation as users have shifted from having multiple SIM cards from different operators and also due to the ongoing poor macroeconomic environment in Brazil. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

The gross handset revenue for the year ended December 31, 2016 was R\$1,377.8 million, a 47.9% decrease over R\$2,646.9 million for the year ended December 31, 2015, resulting from reduced handset sales following an adverse macroeconomic environment that affected the Brazilian retail sector as a whole.

Gross revenues for the year ended December 31, 2016 totaled R\$22,745.6 million, a 11.7% decrease from the year ended December 31, 2015.

Net operating revenues decreased 8.9% to R\$15,617.4 million in the year ended December 31, 2016 from R\$17,142.3 million in the year ended December 31, 2015 for the reasons described below:

Monthly Subscription Charges and Usage Charges

Revenue from monthly subscription charges and usage charges was R\$8,018.8 million in the year ended December 31, 2016, a 17.9 % decrease from R\$9,767.6 million in the year ended December 31, 2015, due primarily to the reduction in mobile usage as a result of the macroeconomic slowdown in Brazil and the trend toward migration from voice to data services as reflected by the 4.25% decrease in our total subscriber base from 66.2 million lines in 2015 to 63.4 million lines in 2016, with the largest decrease in our prepaid subscribers. This migration is resulting in a reduction in our community effect, which is how we describe the effect of users focusing their calls within our network because on-network and off-network calls, in certain plans, have the same rates. As a consequence, some customers have less need to maintain multiple SIM cards in order to call users on other operators, resulting in SIM card consolidation, which decreased our customer base.

The total average monthly minutes of use, or MOU, for 2016 and 2015 were as follows:

Table of Contents

	Year ended December 31, 2016	2015
Average total MOU	117	119

Fixed Services

Revenue from fixed services was R\$1,178.9 million in the year ended December 31, 2016, a 17.5% increase from R\$1,003.2 million in December 31, 2015, mainly due to strong results in the ultra-broadband business and a redesign of our service portfolio to integrate fixed-plus-mobile service for all of our large corporate clients. The fixed year results confirm the resilience of TIM's fixed operations. Even with a tough macro environment, TIM's corporate solutions fixed services remained on track together with TIM Live, which had a solid year increasing revenue growth compared to 2015.

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\$1,102.5 million in the year ended December 31, 2016, a 30.3% decrease from R\$1,581.8 million in 2015, principally due to a combination of the recent cut in VU-M rates (see "Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation" for information regarding recent regulatory changes to VU-M rates) and the reduction of overall voice traffic and SMS messaging. Interconnection as a percentage of total gross services revenues decreased to 5.16% in the year ended December 31, 2016.

Long Distance Charges

Revenues from long distance charges decreased 22.5% to R\$2,101.8 million in the year ended December 31, 2016 from R\$2,710.7 million in the year ended December 31, 2015, reflecting the trend of increasing data usage by customers as compared to voice which has resulted in the commoditization of long distance. Long distance services commoditization process is speeding up and has impacted the performance in 2016.

Value-Added Services

Value-added service revenues increased 10.4% to R\$8,548.0 million in the year ended December 31, 2016 from R\$7,741.8 million the year ended December 31, 2015, principally due to the launch of a new portfolio of offers focusing on innovative revenue sources (such as value-added services). Value-added services include SMS, MMS, data transmission, downloads (wallpaper and ringtones), television access, voicemail, chat and others. See “Item 4. Information on the Company—B. Business Overview—Value Added Services” for additional information on value-added services. Data transmission, supported by our 3G and 4G networks, is the key component to our value-added service revenues, and we have focused on improving our position in this area through expanding partnerships, incentivizing our customer base to acquire smartphones and promoting our mobile broadband service through TIM web broadband.

Other Service Revenues

Revenues from other services increased 30.8% to R\$417.9 million in the year ended December 31, 2016 from R\$319.6 million in the year ended December 31, 2015, mainly driven by the growth of revenues related to infrastructure sharing, and partially offset by the decline in tower leasing revenues as a consequence of the ATC Sale-Leaseback Transaction (see “Item 4. Information on the Company—A. History and Development of the Company—2016 Important Events—Towers Sale & Leaseback” and Note 1(b) to our consolidated financial statements).

Sales of Mobile Handsets

Sales of mobile handsets decreased 47.9% to R\$1,377.8 million in the year ended December 31, 2016 from R\$2,646.9 million registered in the year ended December 31, 2015. The decrease was mainly due to reduced handset sales volumes as a result of a deteriorating macroeconomic environment that affected the Brazilian retail sector as a whole.

Table of Contents

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 17% and 20%, with the exception of certain handsets whose manufacturers are granted certain local tax benefits. 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 relating to operating telecommunications services and at combined rates of 9.25% on gross revenues from value added services and mobile telephone handset sales.

Our value-added and other taxes relating to services and handset sales were R\$5,358.7 million in the year ended December 31, 2016 compared to R\$5,680.1 million in the year ended December 31, 2015, a decrease of 5.7%. This decrease is mainly due to a decrease in gross revenues, which reflected an impact on all business fronts as a result of major changes in usage patterns (reflecting the shift from voice to data), difficult macroeconomic conditions, as well as the impact of mobile-termination rate cuts.

Discounts on Services and Handset Sales

Discounts on services and handset sales decreased 55.4% to R\$144.5 million in the year ended December 31, 2016 compared to R\$323.9 million in the year ended December 31, 2015, due mainly to lower related revenues.

Costs of Services and Goods

Costs of services and goods decreased by 7.4% to R\$7,693.4 million in the year ended December 31, 2016 from R\$8,306.9 million in the year ended December 31, 2015, mainly due to lower VU-M rates to be paid by us when our customers connect to another network and a reduction in the volume of handsets sold. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

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
	2016	2015 (Revised) (1)	2016 – 2015 (%)
	(in millions of <i>reais</i>)		
Depreciation and amortization	(2,884.6)	(2,535.7)	13.8
Interconnection, circuit leasing and related expenses	(2,676.8)	(2,805.4)	(4.6)
Third party services	(506.4)	(490.9)	3.2
Personnel	(59.0)	(91.0)	(35.2)
Rental and insurance	(551.0)	(495.6)	11.2
Taxes, fees, contributions and others	(39.6)	(31.7)	24.9
Total cost of services	(6,717.4)	(6,450.2)	4.1
Cost of handsets and accessories sold	(976.0)	(1,856.7)	(47.4)
Total cost of services and goods	(7,693.4)	(8,306.9)	(7.4)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Depreciation and Amortization

Depreciation and amortization expenses grew 13.8% to R\$2,884.6 million in the year ended December 31, 2016 from R\$2,535.7 million in the year ended December 31, 2015, mainly due to higher network equipment depreciation and higher software amortization, driven by the continuing investment in capital expenditure on the last few years, as established in the Company’s Business Plan (*Plano Industrial*).

Table of Contents

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 4.6% to R\$2,676.8 million in the year ended December 31, 2016 from R\$2,805.4 million in the year ended December 31, 2015, mainly due to a drop in total interconnection rates and by cost-efficiency gains related to the tariff reduction for leased lines' tariff adjustment in accordance with Anatel's Resolution No. 639/2014.

Third Party Services

Third party services costs were R\$506.4 million in the year ended December 31, 2016, increasing 3.2% from R\$490.9 million incurred in the year ended December 31, 2015, mainly due to higher costs from outside providers in connection with maintaining our own network, directly related to the increased amount of equipment we must maintain as a result of infrastructure investments.

Personnel

Personnel costs decreased 35.2% to R\$59.0 million in the year ended December 31, 2016 from R\$91.0 million in the year ended December 31, 2015. This decrease was mainly due to a reduction of approximately 3,200 employees by December 31, 2016, a decrease of 24.5% as compared with the year ended December 31, 2015, in connection with the company's strategic focus on organizational rightsizing and efficiency plan.

Rental and Insurance

Rental and insurance costs increased 11.2% to R\$551.0 million in the year ended December 31, 2016 from R\$495.6 million in the year ended December 31, 2015. This increase is primarily due to the higher number of leased sites, which include both leases of land for placement of our owned towers, as well as leases of space on the towers of other operators.

Taxes, fees, contributions and others

Taxes, fees, contributions and other costs increased 24.9% to R\$39.6 million in the year ended December 31, 2016 from R\$31.7 million in the year ended December 31, 2015.

Costs of Handsets and Accessories Sold

The cost of handsets and accessories sold in 2016 was R\$976.0 million, representing a 47.4% decrease from R\$1,856.7 million in the year ended December 31, 2015. This decrease is attributable to decreased handset sales volumes as described above under “—Sales of Mobile Handsets.”

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
	2016	<u>2015</u> (Revised) (1)	2016 – 2015(%)
	(in millions of <i>reais</i>)		
Net operating revenues from services	14,720.3	15,387.2	(4.3)
Cost of services	(6,717.4)	(6,450.2)	4.1
Gross profit from services	8,002.9	8,937.0	(10.5)
Net operating revenues from sales of mobile handsets and accessories	897.2	1,755.0	(48.9)
Cost of goods	(976.0)	(1,856.7)	(47.4)
Gross loss from sales of mobile handsets and accessories	(78.8)	(101.7)	(22.5)
Gross profit	7,924.1	8,835.4	(10.3)

Table of Contents

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Our gross profit margin from services (gross profit as a percentage of net service revenues) decreased from 57.4% in the year ended December 31, 2015 to 53.8% in the year ended December 31, 2016. This performance is mainly due to major changes in usage patterns (primarily a shift from voice to data usage), deteriorating macroeconomic conditions in Brazil and the impact of VU-M rate cuts, offset by a 10.4% increase in our value-added services net revenues, which had a better profit margins than other services we offer, but nevertheless do not offset the decrease in revenues from the decrease in the use voice services.

Our negative gross margin for sales of mobile handsets and accessories increased from negative 5.8% in the year ended December 31, 2015 to negative 8.8% in the year ended December 31, 2016.

Our overall gross profit margin decreased from 51.5% in the year ended December 31, 2015 to 50.7% in December 31, 2016. This resulted primarily from a lower gross profit margin from services.

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, 2016 and 2015:

Statement of Operations Data: Operating Expenses

	Year ended December 31, 2016	2015 (Revised) (1)	Percentage change 2016 – 2015 (%)
	(in millions of <i>reais</i>)		
Selling expenses	(4,719.0)	(4,823.0)	(2.2)
General and administrative expenses	(1,258.7)	(1,195.3)	5.3
Other operating expenses, net	(552.1)	434.3	n.a.

Total operating expenses (6,499.8) (5,584.0) 16.4

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Our total operating expenses increased by 16.40% to R\$6,499.8 million in the year ended December 31, 2016 from R\$5,584.0 million in December 31, 2015, mainly due to the factors described below:

Selling Expenses

Selling expenses decreased 2.16% to R\$4,719.0 million in the year ended December 31, 2016 from R\$4,823.0 million in the year ended December 31, 2015, mainly due to a significant decrease in advertising expenses, despite the new updates to our portfolio of offers, and a reduction in commissioning expenses, as a result from the efforts of the efficiency program.

General and Administrative Expenses

General and administrative expenses increased by 5.31% to R\$1,258.7 million in the year ended December 31, 2016 from R\$1,195.3 million in the year ended December 31, 2015, mainly as a result of an increase of depreciation and amortization.

Other Operating Expenses, Net

Other net operating expenses increased to R\$522.1 million in the year ended December 31, 2016 from a gain of R\$434.3 million in the year ended December 31, 2015. This increase was mainly explained by higher costs on contingencies, despite gains resulting from the ATC Sale-Leaseback Transaction (see “Item 4. Information on the Company—A. History and Development of the Company—2016 Important Events—Towers Sale & Leaseback” and Note 1.b to our consolidated financial statements).

Table of Contents

Net Financial Expense

Net financial expense increased to R\$410.9 million in the year ended December 31, 2016, from a net financial expense of R\$250.4 million in the year ended December 31, 2015. The variation was mainly due to an increase in financial expenses as a result of the ATC Sale-Leaseback Transaction (see “Item 4. Information on the Company—A. History and Development of the Company—2016 Important Events—Towers Sale & Leaseback”) and a decrease in financial income due to the poor performance of our dollar-denominated foreign exchange fund, intended to mitigate our exposure to U.S. dollar-denominated operating expenses and capital expenditures and partially offset by a positive market-to-market effect.

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, 2016 under tax law. We recorded income and social contribution tax of R\$262.9 million in the year ended December 31, 2016, a decrease of 71% when compared to R\$915.6 million recorded for the year ended December 31, 2015, due mainly to an effective reduction in the tax base caused by the increase of the regional tax incentives (*Superintendência do Desenvolvimento da Amazônia*, or, SUDAM, and *Superintendência do Desenvolvimento do Nordeste*, or, SUDENE).

Net Income

Our net income in the year ended December 31, 2016 was R\$750.4 million, representing a decrease of 64% from a net income of R\$2,085.4 million in the year ended December 31, 2015.

Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Operating Revenues

Our operating revenues consisted of:

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

The composition of our operating revenues by category of service is presented in Note 26 to our consolidated financial statements as of and for the year ended December 31, 2015 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 2015 and 2014:

Table of Contents

Statement of Operations Data: Operating Revenues

	Year ended December 31,		Percentage change
	2015 (Revised) (1)	2014 (Revised) (1)	2015 – 2014 (%)
	(in millions of <i>reais</i>)		
Monthly subscription charges and usage charges	9,767.6	11,011.5	(11.3)
Fixed services	1,003.2	901.2	11.3
Interconnection charges	1,581.8	2,630.7	(39.9)
Long distance charges	2,710.7	3,094.1	(12.4)
Value-added services	7,741.8	6,616.0	17.0
Other service revenues	319.6	284.2	12.5
Gross operating revenues from services	23,124.6	24,537.6	(5.8)
Value-added and other taxes relating to services	(5,680.1)	(5,817.3)	(2.4)
Discounts and returns on services	(2,057.0)	(2,390.8)	(14.0)
Net operating revenues from services	15,387.2	16,329.0	(5.8)
Sales of mobile handsets and accessories	2,646.9	4,471.3	(40.8)
Value-added and other taxes on handset sales	(567.9)	(906.1)	(37.3)
Discounts and returns on handset sales	(323.9)	(392.1)	(17.4)
Net operating revenues from handset and accessory sales	1,755.0	3,173.2	(44.7)
Net operating revenues	17,142.3	19,502.1	(12.1)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Our gross service revenue for the year ended December 31, 2015 was R\$23,124.6 million, representing a 5.8% decrease from R\$24,537.6 million in the year ended December 31, 2014, mainly due a significant decrease in VU-M rates, and a reduction in SMS usage and voice traffic. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

The gross handset revenue for the year ended December 31, 2015 was R\$2,646.9 million, a 40.8% decrease over R\$4,471.3 million for the year ended December 31, 2014, resulting from reduced handset sales.

Gross revenues for the year ended December 31, 2015 totaled R\$25,771.5 million, a 11.2% decrease from the year ended December 31, 2014.

Net operating revenues decreased 12.1% to R\$17,142.3 million in the year ended December 31, 2015 from R\$19,502.1 million in the year ended December 31, 2014 for the reasons described below:

Monthly Subscription Charges and Usage Charges

Revenue from monthly subscription charges and usage charges was R\$9,767.6 million in the year ended December 31, 2015, a 11.3% decrease from R\$11,011.5 million in the year ended December 31, 2014, due primarily to the reduction in mobile usage as a result of the macroeconomic slowdown in Brazil and the trend toward migration from voice to data services as reflected by the 12.5% decrease in our total subscriber base from 75.7 million lines in 2014 to 66.2 million lines in 2015, with the largest decrease in our prepaid subscribers.

The total average monthly MOU for 2015 and 2014 were as follows:

	Year ended December 31,	
	2015	2014
Average total MOU	119	136

Fixed Services

Revenue from fixed services was R\$1,003.2 million in the year ended December 31, 2015, a 11.3% increase from R\$901.2 million in December 31, 2014, mainly due to strong results in the ultra-broadband business and a redesign of our service portfolio to integrate fixed-plus-mobile service for all of our large corporate clients..

Table of Contents

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\$1,581.8 million in the year ended December 31, 2015, a 39.9% decrease from R\$2,630.7 million in 2014, principally due to a combination of the recent cut in VU-M rates (see “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates) and the reduction of overall voice traffic and SMS messaging. Interconnection as a percentage of total gross services revenues decreased to 6.14% in the year ended December 31, 2015.

Long Distance Charges

Revenues from long distance charges decreased 12.4% to R\$2,710.7 million in the year ended December 31, 2015 from R\$3,094.1 million in the year ended December 31, 2014, reflecting the trend of increasing data usage by customers as compared to voice which has resulted in the commoditization of long distance. Our offers launched in November of 2015, which included off-network calls within Brazil at the same price of on-network calls, may reduce the pace of this process and help to increase long distance charge revenues.

Value-Added Services

Value-added service revenues increased 17.0% to R\$7,741.8 million in the year ended December 31, 2015 from R\$6,616.0 million in the year ended December 31, 2014, principally due to the launch of a new portfolio of offers focusing on innovative revenue sources (such as value-added services). Value-added services include SMS, MMS, data transmission, downloads (wallpaper and ringtones), television access, voicemail, chat and others. See “Item 4. Information on the Company—B. Business Overview—Value Added Services” for additional information on value-added services. Data transmission, supported by our 3G and 4G networks, is the key component to our value-added service revenues, and we have focused on improving our position in this area through expanding partnerships, incentivizing our customer base to acquire smartphones and promoting our mobile broadband service through TIM web broadband.

Other Service Revenues

Revenues from other services increased 12.5% to R\$319.6 million in the year ended December 31, 2015 from R\$284.2 million in the year ended December 31, 2014, mainly driven by the growth of revenues related to infrastructure sharing, and partially offset by the decline in tower leasing revenues as a consequence of the ATC Sale-Leaseback Transaction (see “Item 4. Information on the Company—A. History and Development of the Company—2016 Important Events—Towers Sale & Leaseback” and Note 1.b to our consolidated financial statements).

Sales of Mobile Handsets

Sales of mobile handsets decreased 40.8% to R\$2,646.9 million in the year ended December 31, 2015 from R\$4,471.3 million registered in the year ended December 31, 2014. The decrease was mainly due to a reduced handset sales volume as a result of a deteriorating macroeconomic environment that affected the Brazilian retail sector as a whole, together with exchange rate variations resulting in a 47.0% depreciation of the real against the U.S. dollar.

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 was, at the time, imposed at a rate between 7% and 17 % (until the beginning of 2016, when the upper rate increased to 20%). 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 gross revenues from value added services and from mobile telephone handset sales.

Table of Contents

Our value-added and other taxes relating to services and handset sales was R\$6,248.0 million in the year ended December 31, 2015 compared to R\$6,723.4 million in the year ended December 31, 2014, a decrease of 7.1%. This decrease is mainly due to a decrease in gross revenues, which reflected an impact on all business fronts as a result of major changes in usage patterns (reflecting shift from voice to data), difficult macroeconomic conditions, as well as the impact of mobile-termination rate cuts.

Discounts on Services and Handset Sales

Discounts on services and handset sales decreased 14.4% to R\$2,380.9 million in the year ended December 31, 2015 compared to R\$2,782.9 million in the year ended December 31, 2014, due mainly to lower related revenues.

Costs of Services and Goods

Costs of services and goods decreased by 17.6% to R\$8,306.9 million in the year ended December 31, 2015 from R\$10,084.0 million in the year ended December 31, 2014, mainly due to lower VU-M rates to be paid by us when our customers connect to another network and the lower cost of handsets by a reduction in the volume of handsets sold. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

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
	2015	2014	2015 – 2014 (%)
	(Revised)	(Revised)	
	(1)	(1)	
	(in millions of <i>reais</i>)		
Depreciation and amortization	(2,535.7)	(2,345.5)	8.1
Interconnection, circuit leasing and related expenses	(2,805.4)	(3,429.1)	(18.2)
Third party services	(490.9)	(439.5)	11.7

Personnel	(91.0)	(80.3)	13.3
Rental and insurance	(495.6)	(412.5)	20.1
Taxes, fees, contributions and others	(31.7)	(36.6)	(13.4)
Total cost of services	(6,450.3)	(6,743.5)	(4.3)
Cost of handsets and accessories sold	(1,856.7)	(3,340.5)	(44.4)
Total cost of services and goods	(8,306.9)	(10,084.0)	(17.6)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Depreciation and Amortization

Depreciation and amortization expenses grew 8.1% to R\$2,535.7 million in the year ended December 31, 2015 from R\$2,345.5 million in the year ended December 31, 2014, 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 18.2% to R\$2,805.4 million in the year ended December 31, 2015 from R\$3,429.1 million in the year ended December 31, 2014, mainly due to the decrease in out-of-network voice and SMS traffic and the reduction in VU-M rates. See “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation” for information regarding recent regulatory changes to VU-M rates.

Table of Contents

Third Party Services

Third party services costs were R\$490.9 million in the year ended December 31, 2015, increasing 11.7% from R\$439.5 million incurred in the year ended December 31, 2014, mainly due to higher costs from outside providers in connection with maintaining our own network, directly related to the increased amount of equipment we must maintain as a result of infrastructure investments.

Personnel

Personnel costs increased 13.3% to R\$91.0 million in the year ended December 31, 2015 from R\$80.3 million in the year ended December 31, 2014. This increase was mainly due to the Company's adjustment of personnel salaries for inflation, as well as other adjustments made by the Company to benefits received by its personnel.

Rental and Insurance

Rental and insurance costs increased 20.1% to R\$495.6 million in the year ended December 31, 2015 from R\$412.5 million in the year ended December 31, 2014. This increase is primarily due to a higher number of leased sites, which include both leases of land for placement of our owned towers, as well as leases of space on the towers of other operators.

Taxes, fees, contributions and others

Taxes, fees, contributions and others costs decreased 13.4% to R\$31.7 million in the year ended December 31, 2015 from R\$36.6 million in the year ended December 31, 2014.

Costs of Handsets and Accessories Sold

The cost of handsets and accessories sold in 2015 was R\$1,856.7million, representing a 44.4% decrease from R\$3,340.5 million in the year ended December 31, 2014. This decrease is attributable to decreased handset sales volumes as described above under “—Sales of Mobile Handsets.”

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
	2015 (Revised) (1)	2014 (Revised) (1)	2015 – 2014 (%)
	(in millions of <i>reais</i>)		
Net operating revenues from services	15,387.2	16,329.0	(5.8)
Cost of services	(6,450.2)	(6,743.5)	(4.3)
Gross profit from services	8,937.0	9,584.5	(6.8)
Net operating revenues from sales of mobile handsets and accessories	1,755.0	3,173.2	(44.7)
Cost of goods	(1,856.7)	(3,340.5)	(44.4)
Gross loss from sales of mobile handsets and accessories	(101.7)	(167.3)	(39.2)
Gross profit	8,835.4	9,418.2	(6.2)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Our gross profit margin from services (gross profit as a percentage of net service revenues) decreased from 57.7% in the year ended December 31, 2014 to 57.4% in the year ended December 31, 2015. This performance is mainly due to major changes in usage patterns (primarily a shift from voice to data usage), deteriorating macroeconomic conditions in Brazil and the impact of VU-M rate cuts, offset by a 16.7% increase in our value-added services net revenues, which have a better profit margins than other services we offer.

Table of Contents

Our negative gross margin for sales of mobile handsets and accessories increased from negative 5.3% in the year ended December 31, 2014 to negative 5.8% in the year ended December 31, 2015.

Our overall gross profit margin increased from 48.3% in the year ended December 31, 2014 to 51.5% in December 31, 2015. This resulted primarily from a higher gross profit margin from services.

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, 2015 and 2014:

Statement of Operations Data: Operating Expenses

	Year ended December 31,		Percentage change
	2015 (Revised) (1)	2014 (Revised) (1)	2015 – 2014 (%)
	(in millions of <i>reais</i>)		
Selling expenses	(4,823.0)	(5,029.9)	(4.1)
General and administrative expenses	(1,195.3)	(1,130.8)	5.7
Other operating expenses, net	434.3	(775.0)	n.a.
Total operating expenses	(5,584.0)	(6,935.7)	(19.5)

(1) The adjustments are illustrated in Note 2(e) of our consolidated financial statements and described under “PRESENTATION OF INFORMATION—Presentation of Financial Information”

Our total operating expenses decreased by 19.5% to R\$5,584.0 million in the year ended December 31, 2015 from R\$6,935.7 million in December 31, 2014, mainly due to the factors described below:

Selling Expenses

Selling expenses decreased 4.1%, to R\$4,823.0 million in the year ended December 31, 2015 from R\$5,029.9 million in the year ended December 31, 2014, mainly due to a significant decrease in advertising expenses, despite the launch of a new portfolio of plans in November 2015, a reduction in commissioning expenses and a decrease in FISTEL taxes for the reasons described in “—FISTEL Tax and Other”.

General and Administrative Expenses

General and administrative expenses increased by 5.7% to R\$1,195.3 million in the year ended December 31, 2015 from R\$1,130.8 million in the year ended December 31, 2014, mainly as a result of an increase of depreciation and amortization.

Other Operating Expenses, Net

Other net operating expenses presented a gain of R\$434.3 million in the year ended December 31, 2015 from an expense of R\$775.0 million in the year ended December 31, 2014. This reversal was mainly due to gains resulting from the ATC Sale-Leaseback Transaction (see “Item 4. Information on the Company—A. History and Development of the Company—2016 Important Events—Towers Sale & Leaseback” and Note 1.b to our consolidated financial statements), and partially offset by higher costs on contingencies.

Net Financial Expense

We had net financial expense of R\$250.4 million in the year ended December 31, 2015, from a net financial expense of R\$280.6 million in the year ended December 31, 2014. The variation was due principally to our maintenance of financial assets exceeding our financial liabilities for the most part of 2015, with financial revenues growing more than financial expenses, an increase in the SELIC interest rate and higher volatility of the real in relation to foreign currencies. The ATC Sale-Leaseback Transaction also impacted the financial expenses in the period.

Table of Contents

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, 2015 under tax law. We recorded income and social contribution tax of R\$915.6 million in the year ended December 31, 2015, an increase of 40.3% when compared to R\$652.8 million recorded for the year ended December 31, 2014, due mainly to higher pre-tax income.

Net Income

Our net income in the year ended December 31, 2015 was R\$2,085.4 million, representing an increase of 34.6% from a net income of R\$1,549.1 million in the year ended December 31, 2014.

B. Liquidity and Capital Resources

We expect to finance our capital expenditures and other liquidity requirements for the remainder of 2017, 2018 and 2019 with our cash, operating revenue, renewals of maturing short-term indebtedness and disbursements from our existing long-term credit line with BNDES of R\$5,700 million, of which R\$1.96 billion remains undisbursed and available at our request and with our loan agreement with Finnish Export Credit / KfW of U.S.\$150 million, of which is U.S.\$100 million remains undisbursed and available at our request. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of Funds—Financial Contracts” for additional detail on our financial contracts and Note 39 to our consolidated financial statements for a discussion of the other types of financial instruments used by the Company.

Our net debt position in 2016 of R\$2,721 million (loans plus accrued interest, lease obligations and derivatives (liabilities), less cash and cash equivalents, derivatives (assets), lease assets and short term investments) means we should not need substantial funding to meet our obligations or to conduct our activities. We believe that our current working capital is sufficient for our present requirements..

Sources of Funds

Cash from operations

Our cash flows from operating activities was R\$4,992,248 thousand in the year ended December 31, 2016 compared to R\$4,278,184 thousand in the year ended December 31, 2015.

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

· Increase of accounts receivable in the amount of R\$291.8 million.

· Decrease in accounts payable to suppliers in the amount of R\$296.0 million.

· Increase in judicial deposits, or 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\$128.3 million.

Financial Contracts

We and our subsidiaries are party 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.

In 2016, TIM Celular received disbursements totaling R\$1,304 million related to existing and new financing agreements, as set forth below and as each agreement is described further in the following paragraph:

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.

Table of Contents

As mentioned above, our principal financing agreements are

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, 2016, the outstanding amount under this credit agreement, including accrued interest, was R\$78 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, 2016, the outstanding amount under this credit agreement, including accrued interest, was R\$25 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 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, 2016, the outstanding amount under this credit agreement, including accrued interest, was R\$182 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 million increase in the credit limit was effected by way of amendment on December 10, 2012). 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 2016, the outstanding debt of TIM Celular under this credit agreement, including accrued interest, was R\$751 million and the outstanding debt of Intelig including accrued interest, was R\$66 million.

Facility Agreement, dated as of November 28, 2008, between BNP Paribas, as lender, and TIM Celular, as 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, 2016 converted from U.S. dollars was R\$78 million, including accrued interest. The agreement matures on December 2017 and bears an average cost of 97.42% of the CDI after hedging.

Finance Contract, dated as of December 29, 2011, between European Investment Bank, as lender, TIM Celular, 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, 2016, converted from euros was R\$404 million, including accrued interest. The agreement matures in August 2019, bear an average cost of 93.60% of

the CDI after hedging. In March 2015, TIM Celular recouped the swaps that hedged the €100 million, which helped to reduce the cost indexed to CDI. The bank guarantee was provided by SACE S.p.A. for the principal amount of U.S.\$141.3 million.

Finance Contract, dated as of July 13, 2012, between European Investment Bank, as lender, TIM Celular, 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, 2016, converted from euros was R\$219 million, including accrued interest. The agreement matures in February 2020 and bears an average cost of 93.60% of the CDI after hedging. In March 2015, TIM Celular made a recouping in the swaps that was hedging the €100 million, with this transaction the company was able to reduce the debt cost in terms of CDI. The bank guarantee was provided by KfW IPEX for the principal amount of €52.5 million.

Master Loan Agreement, dated as of June 20, 2013, between Cisco Capital, as lender, TIM Celular, 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 Capital, as lender, and TIM Celular, as borrower, in the total principal amount of U.S.\$50 million. On October 14, 2014, a new Facility Agreement

Table of Contents

was signed, between Cisco Capital, as lender, and TIM Celular, as borrower, in the total principal amount of U.S.\$50 million. The new Facility Agreement was fully disbursed on November 5, 2014. On November 18, 2015, a new Facility Agreement was signed between Cisco Capital, as lender and TIM Celular, as borrower in the total principal amount of U.S.\$50 million. The new Facility Agreement was fully disbursed on December 15, 2015. The total outstanding amount as of December 31, 2016 converted from U.S. dollars was R\$294 million, including accrued interest. The first agreement matures in September 2018 and bears an average cost of 93.80% of the CDI after hedging, the second agreement matures in November 2019 and bears an average cost of 91.90% of the CDI after hedging and the third agreement matures in December 2020 and bears an average cost of 84.50% of the CDI after hedging. No guarantees were issued under this loan.

Credit Agreement, dated as of December 23, 2013, between BNDES, as lender and 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 SELIC 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. As of December 31 2016, the outstanding amount under this credit agreement, including accrued interest, was R\$3,996 million.

Loan Agreement, dated as of April 15, 2014, between KfW IPEX as lender, TIM Celular, as borrower and TIM Participações as guarantor, in the principal amount of U.S.\$100 million. The total outstanding amount as of December 31, 2016 converted from U.S. dollars was R\$182 million, including accrued interest. The agreement matures on April 15, 2019 and bears an average cost of 102.50% of the CDI after hedging. No guarantees were issued under this loan.

Loan Agreement, dated as of December 23, 2015, between Finnish Export Credit as lender, KfW IPEX as facility agent, TIM Celular, as borrower and TIM Participações as guarantor, in the principal amount of U.S.\$150 million. The new Loan Agreement is divided in three tranches of U.S.\$50 million to be disbursed in 2016, 2017 and 2018. On April 20, 2016, the first tranche was disbursed and it has an average cost of 79% of the CDI after hedging. As of December 31 2016, the total outstanding amount under this credit agreement, converted from U.S. dollars and including accrued interest, was R\$121 million. The agreement matures on January 2, 2024.

Promissory Note, dated as of June 14, 2016, between Bank of America, N.A., as bank, TIM Celular S.A., as borrower, in the total principal amount of U.S.\$99.5 million. The total outstanding amount as of December 31, 2016 converted from U.S. dollars was R\$325 million, including accrued interest. The agreement matures on September 14, 2018 and has an average cost of 103.60% of the CDI after hedging. No guarantees were issued under this loan. The proceeds of this Promissory Note loan were used for the full prepayment of obligations arising from the Promissory Note issued by TIM Celular in favor of Bank of America on July 31, 2013, which occurred on June 8, 2016, without

any break-funding cost.

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

The following financial contracts were disclosed in our annual report filed on Form 20-F with the Securities and Exchange Commission on April 15, 2016, all of which have since matured and been repaid by the Company:

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.

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), as borrowers and TIM Participações as guarantor, in the total principal amount of €200 million fully disbursed, and fully swapped into local currency,

Table of Contents

between September 2009 and June 2010. In 2016, to improve our debt profile, we prepaid this facility in full, with no break-funding cost. The debt was scheduled to mature within 12 months.

Funds From Subsidiaries

There are no material restrictions on the ability of our subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances.

Uses of Funds

Our principal uses of funds during the three year period ended December 31, 2016, were capital expenditures, payment of dividends to our shareholders and loan repayments.

Material Capital Expenditures

Our capital expenditures in 2016, 2015 and 2014 related primarily to:

- acquiring and developing our fiber optic network;
- deployment and expansion of the capacity of our third and fourth generation (3G and 4G) networks;
- 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;

acquisition of new licenses, primarily for additional bandwidth in the 4G spectrums;

developing new operational systems to meet customers' demands and information technology systems; and

free handsets provided to corporate customers.

The following table contains a breakdown of our investments in fixed assets for the years ended December 31, 2016, 2015 and 2014:

Capital Expenditures Categories

	Year ended December 31,		
	2016	2015	2014
	(in millions of <i>reais</i>)		
Network	2,916.1	3,498.2	2,975.7
Information technology	888.6	807.8	698.7
Licences	501.2	190.8	2,997.9
Other	196.5	267.4	181.8
Total capital expenditures	4,502.4	4,764.2	6,854.2

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.

Table of Contents

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, 2016, 2015 and 2014:

Dividend Distribution

	Year ended December 31,		
	2016	2015	2014
	(in millions of <i>reais</i>)		
Dividends	148.7	468.6	367.3
Interest on shareholders' equity	—	—	—
Total distributions	148.7	468.6	367.3

On April 19, 2017 our shareholders will vote on the distribution of R\$148.7 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2016 results. On April 12, 2016 our shareholders approved the distribution of R\$468.6 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2015 results. On April 14, 2015 our shareholders approved the distribution of R\$367.3 million as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2014 results. 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.

Funding and Treasury Policies

The Company maintains a general policy of continually monitoring its financial position and treasury activities in order to ensure solid fiscal control. As a result of our (1) cash position, (2) leverage ratio of 0.52 times Net Debt to EBITDA (for additional detail, see “—Leverage” below) and an available credit facility from BNDES of R\$1.96 billion, linked to the contract signed in 2013, that can be disbursed until June 2017. However in accordance with our funding and treasury policy, the Company will continue to monitor new financing opportunities with a particular focus on soft loans, or loans with a below-market interest rate, and long-term facilities.

Leverage

Management tracks the ratio of net debt to EBITDA, which we refer to as the financial leverage index, in order to monitor the sustainability of our debt levels and our ability to take on additional debt. The ratio is a common credit analysis metric in the telecommunications industry and shows approximately how many years it would take to pay back our indebtedness, assuming no new debt is taken on, EBITDA remains constant and all cash and cash equivalents may be used to repay debt. In addition, we believe that the ability to take on additional debt is a critical factor affecting success, as indebtedness may be required to make investments necessary to grow the Company's business. We believe that our current financial leverage index of 0.52 times Net Debt to EBITDA reflects low levels of indebtedness and the ability to incur additional debt if needed for investment. Investors should be cautious in comparing our financial leverage index to that of other companies that report a similar ratio of debt to EBITDA because EBITDA in particular may be calculated differently from company to company, leading to financial leverage indices that are not comparable. Accordingly, any such comparison may be misleading.

The following table sets forth our financial leverage index for the reported periods:

	2016	2015
	(in millions of <i>reais</i>)	
Total loans (Notes 19 and 38)	6,584,332	6,936,374
Leasing – Liabilities (Note 15)	1,802,238	1,618,506
Leasing – Assets (Note 15)	(204,762)	(199,935)
Debt with Anatel (Note 18)	147,218	77,450
Less: cash and cash equivalents (Note 4)	(5,128,186)	(6,100,403)
Net debt	2,720,889	1,732,578
EBITDA	5,209,368	6,613,411
Financial leverage index	0.52	0.26

Table of Contents

A reconciliation of our net income to EBITDA, as well as a further explanation of the calculation of our financial leverage index, is also presented in Note 38 to our consolidated financial statements.

We believe that using EBITDA as a non-GAAP measure is useful to management, investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as they exclude the depreciation and amortization expense related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to TIM's competitors. EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense to net income.

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, 2016, our subscriber base decreased 4.3% to 63.4 million clients, which represents a market share of 26%. This overall subscriber base reduction was a result of a significant reduction in the number of

prepaid customers in the Brazilian mobile telecommunications market, generally, as most of our disconnections were of prepaid plans. Prepaid plan users concentrate the lower-middle socioeconomic classes of Brazil, as defined by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*). These users are particularly affected by macroeconomic pressures in Brazil, accelerating the number of users consolidating multiple SIM cards to a single one, the high penetration of mobile service and the rapid substitution of voice for data usage, resulting in a decrease in the “community effect.” Our prepaid business reached 48.5 million users in the year ended December 31, 2016, a decrease of 7.8% from the year ended December 31, 2015. The number of our postpaid users was 14.9 million in the year ended December 31, 2016, a 9.6% increase from the year ended December 31, 2014.

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. Our strategies for doing so are outlined in more detail in “—B. Business Overview—Our Strategy.”

Change of Mix Between Postpaid and Prepaid Customers

With respect to the composition of our clients, our postpaid customers accounted for 23.5% of our total subscriber base in the year ended December 31, 2016, compared to 20.5% from a year ago, largely due to the solid pace of postpaid net additions and higher disconnections of the prepaid base as described above.

Trends in Sales and Prices of Mobile Units and Service Plans

The volume of unit sales in the same period decreased markedly due, in part, to a tougher macro economic environment which limits consumer purchasing power and also impacts TIM’s negotiation with suppliers due to foreign exchange rate variations. In spite of challenging economic conditions, smartphone penetration kept increasing and reached more than 72% of our total base as of November, 2016 as compared with 67.6% in December, 2015. The expected recovery of the Brazilian economy could create a positive effect for the handset business in 2017.

Table of Contents

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 was R\$18.0 in the year ended December 31, 2016, a increase of 7.9% when compared to an ARPU of R\$16.7 for the year ended December 31, 2015, largely due to the new portfolio, which continues to attract higher value customers in all segments (prepaid, Controle and postpaid).

Revenues from value-added services had an important role in promoting ARPU’s increase trend of the market as a whole. In 2016 we registered a value-added service revenue growth of 13.0%, which accounted for 44.7% of total gross service revenue (compared to 37.5% registered in 2015). 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 2016, amid a competitive landscape, our subscriber acquisition costs (which are comprised of a subsidy, commissions and total advertising expenses) amounted to R\$29.0 per gross add for the year ended December 31, 2016, compared to R\$30.5 in the year ended December 31, 2015. The decrease of 4.8% against the prior period is primarily due to a greater focus on the acquisition of high-value customers.

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 2016 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.

According to data published by Anatel, the fixed telecommunications sector contracted 5.3% in 2016 as compared to 2015, ending the year with 244.1 million lines, representing a penetration level approximately 118.0 lines for each 100 inhabitants.

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:

2017	744,832
2018	778,349
2019	813,375

Table of Contents

2020	849,977
2021	888,226
Total	4,074,759

F. Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations and commercial commitments as of December 31, 2016:

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)	6,584	1,099	3,236	1,777	472
Finance leases(2)	1,745	97	20	50	1,578
Total(3)	8,329	1,196	3,256	1,827	2,051

(1) Considering the balances related to derivative financial instruments as of December 31, 2016.

(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.

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.

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 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.

Table of Contents

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 2016, contributions to pension plans and other post-employment benefits amounted to R\$44.8 million.

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*

Table of Contents

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.

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 358/2002. 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 de Controle e 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 certain other Brazilian law regulations including 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 April 2017:

Name	Title	Date of Birth	Date Appointed
Franco Bertone	Chairman	April 9, 1952	April 14, 2015
Adhemar Gabriel Bahadian	Director	October 22, 1940	April 14, 2015
Oscar Cicchetti	Director	June 17, 1951	April 14, 2015
Francesca Petralia	Director	August 30, 1953	April 14, 2015
Manoel Horácio Francisco da Silva	Director	July 16, 1945	April 14, 2015
Piergiorgio Peluso	Director	March 25, 1968	April 14, 2015
Alberto Emmanuel Carvalho Whitaker	Director	October 10, 1940	April 14, 2015
Mario di Mauro	Director	August 26, 1971	April 14, 2015
Herculano Aníbal Alves	Director	February 27, 1953	April 14, 2015
Stefano De Angelis	Director	August 22, 1967	May 11, 2016

Messrs. Whitaker, Bahadian and Alves 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 2017. 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 from Università degli Studi di Pavia. He developed his professional career in the information and communications technology industry both in Italy and internationally (Europe, USA, Middle East and South America). After graduation, he joined Sirti S.p.A., or Sirti, a telecommunications engineering firm, where in Italy in 1978, he specialized in data processing and digital transmission, in Sweden and the USA he specialized in computer controlled switching systems from 1979 to 1980, and he gained program management experience in major turn-key telecommunication projects in Saudi Arabia from 1980 to 1985. At Sirti, Mr. Bertone started a software business unit in Italy, where he worked from 1986 to 1991, marketing network management systems and planning tools for the telecommunications industry. In 1992, he was appointed Managing Director of the UK subsidiary of Sirti, where he developed a design and field services outsourcing business for telecommunications and cable operators in the UK and the USA from 1992 to 1997. In 1997, he joined Telecom Italia to run operations in Bolivia and Argentina. In 2003, he moved to the Telecom Italia Group's Latin American headquarters in Brazil as Statutory Director of Corporate Affairs from 2003 to 2006. He was Chairman and Chief Executive Officer of Empresa Nacional de Telecomunicaciones S.A., or Entel, from 1997 to 2002 and from 2006 to 2008, and held various titles at Telecom Argentina, including Executive Vice President from 2001 to 2002, Chief Operating Officer in 2008, and Chief Executive Officer from 2009 to 2013. In between roles at Telecom Argentina, Mr. Bertone held the position of Chairman of Telecom Personal from 2010 to 2013. He also served as board member of privately owned and publicly traded companies in the USA, UK, Netherlands, Germany, Argentina, Brazil and other Latin American markets and is currently Chairman of Telecom Italia International and TIM Brasil (each fully owned subsidiaries of Telecom Italia) and Chief Executive Officer of TIM Brasil.

Table of Contents

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), a degree in Psychology from the Universidade Gama Filho (UGF) and a master's degree from Instituto Rio Branco.

Oscar Cicchetti. Mr. Cicchetti began his professional career in 1978, as analyst at software company Datamat S.p.A. He joined Telecom Italia (known at that time as Società Idroelettrica Piemontese, or SIP) in 1979, and from 1979 to 1984, was responsible for Network Operations and then Head of Sales and Field Services in several regional organizations. In 1987, he moved to the company's headquarters in Rome, and from 1987 to 1993, was Head of Organization and Processes in the Personnel Department. In 1993, he was involved in a task force that managed the privatization process of the Italian state owned telecommunications company and its subsequent integration into the Telecom Italia Group. From 1994 to 1997, he was Chief of Staff of the Chief Operating Officer, and then of the Chief Executive Officer of the Telecom Italia Group. From 1997 to 2000, he held several key management positions in the Telecom Italia Group, such as Head of the International Business Unit, Head of Strategy, Head of the Network Division. In 2001, he left the Telecom Italia Group and, as investor and Chief Executive Officer, managed the successful turnaround of Netscalibur Italia S.p.A., an Internet data company sold to Infracom Group in 2006. In 2007, Mr. Cicchetti became Managing Director of the merged company, Infracom Network Application S.p.A. He rejoined the Telecom Italia Group in January 2008, where he has held a series of top management positions, including Head of Business Strategies & International Development, Head of Domestic Market Operations, and Head of Technology & Operations. From September 2013 to March 2014, he was Chief Executive Officer of the Telecom Argentina Group and Chairman of Telecom Personal. In addition to being a member of the Board of Directors of TIM Participações, he is a member of the Executive Committee of the Asstel, the Association of Italian Telecommunication Companies. At present, he is the Chief Executive Officer of Telecom Italia's towers company, INWIT S.p.A. - Infrastrutture Wireless Italiane S.p.A.

Francesca Petralia. After graduating in Law, Mrs. Petralia 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 was a member of the board directors of the Argentine companies Sofora Telecomunicaciones and Telecom Argentina from April 2013 to March 2016. She is a member of the Board of Directors of TIM Brasil and of the Italian companies INWIT S.p.A. and Persidera S.p.A, and holds the position of Managing Director of Alfiere S.p.A. 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. Mrs. Petralia left the Telecom Italia Group on December 31, 2016. However, Mrs. Petralia remains as a board member of TIM Participações.

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 Telemar and also managed the area of paper and cellulose from Companhia 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, responsible for the restructuring of Companhia Vale do Rio Doce after its privatization. He has held a position in the board of directors of many companies, such as BM&FBOVESPA, Sadia (currently BRF S.A.), 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.

Piergiorgio Peluso. After graduating in Economic and Social Sciences from the Università Commerciale Luigi Bocconi in 1992, with a specialization in Finance, from 1992 to 1994, Mr. Peluso held the position of experienced accountant at Arthur Andersen & Co. From 1994 to 1998, he was Senior Financial Analyst at Mediobanca. 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 Chief Executive Officer 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. In addition to being a

Table of Contents

member of the Board of Directors of TIM Participações, Mr. Peluso is also a non-executive member of the Board of Directors of Telecom Italia Media S.p.A., Telecom Argentina and Fondazione Telecom Italia. Since September 26, 2012, Mr. Peluso has been Head of Administration, Finance and Control at Telecom Italia, and since April 18, 2014, he has been the manager responsible for preparing Telecom Italia's financial statements.

Alberto Emmanuel Carvalho Whitaker. Mr. Whitaker holds a degree in Law from Faculdades Metropolitanas Unidas – FMU and is a lawyer duly admitted to the Brazilian Bar Association, São Paulo Section (OAB/SP). He is also a business administrator duly registered at the Regional Administration Council of São Paulo (CRA/SP). He attended several extension courses focused on Corporate Governance at the following institutions: Instituto Brasileiro de Governança Corporativa (IBGC), the University of Chicago, the International Institute for Management Development (IMD, Lausanne), the National Association of Corporate Directors - Washington, and the Global Corporate Governance Forum - IFC-Washington. Mr Whitaker has also been a member of the Board of Directors of various national and multinational companies, and is currently a member of the Board of Directors of Instituto Brasileiro de Governança Corporativa (IBGC), the fiscal council of the Museu de Arte de São Paulo (MASP) and member of the Board of Directors of the Fundação Bienal de São Paulo. Mr. Whitaker also held the position of executive director of several prominent financial entities and general manager of the Brazilian subsidiaries of the SCR Sibelco, a world leader in the mining and processing of industrial minerals from 1991 to 2006. At TIM Participações, Mr. Whitaker was a member of the Fiscal Council/Audit Committee, from April 11, 2008 to December 12, 2013; chairman of the Fiscal Council/Audit Committee from October 28, 2010 to December 12, 2013, and has been a member and coordinator of the Statutory Audit Committee from December 12, 2013 to date; a member of the Board of Directors from May 8, 2014 to date; and a member of Control and Risks Committee from May 8, 2014 to date.

Mario di Mauro. Mr. Di Mauro holds a bachelor's degree in Economics and an MBA from the University G. D'Annunzio in Chieti, Italy). He has been Chief Strategy Officer, (covering strategic planning, group strategy and business positioning for TIM) since September 2016 in Rome, Italy at Telecom Italia, and CEO of Tim Ventures S.r.l. since July 2014. He was the head of Strategy & Innovation (covering IT strategic planning, group strategy, and IT business positioning) at Telecom Italia since February 2014 in Rome, Italy, from 2014 to 2016. He is a member of the board of directors of the Italian companies Olivetti S.p.A. and Advanced Caring Centre s.r.l. since 2014 and Chief Executive Officer of Tim Ventures s.r.l. since 2015. Prior to that, Mr. Di Mauro occupied several positions at Telecom Italia, namely: head of Strategic Projects from 2013 to 2014; head of Business Valuation – Mergers & Acquisitions from 2010 to 2013; head of International Planning & Control from 2008 to 2010; and head of Business Positioning & Competitive Analysis from 2006 to 2008. From 2001 to 2005, Mr. Di Mauro was head of the Planning & Control & Investment Projects at Telecom Italia. From 2000 to 2001, he was responsible for Controlling Activities and from 1998 to 2001 he was a Senior Analyst Controlling Activities, both positions within the International Affairs division of Telecom Italia Mobile S.p.A., which has since merged with Telecom Italia. From 1995 to 1998, Mr. Di Mauro was a consultant and an Assistant Professor in Chieti, Italy.

Herculano Aníbal Alves. Mr. Alves received a degree in Economics from Pontifícia Universidade Católica de São Paulo, PUC-SP in 1980, a specialist in Financial Administration from Fundação Getúlio Vargas in 1983 and a master's degree in Finance and Investments from Fundação Getúlio Vargas in 1989 and attended the Governance, Risk and

Compliance course from the Risk University of KMPG in 2016. From May 2014 to April 2015, Mr. Alves was an Equities Consultant at BRAM – Bradesco Asset Management S.A. DTVM, or BRAM. He was Director of Equities of BRAM US from September 2011 to March 2015, Head of Equities at BRAM – Bradesco Asset Management Ltda. from July 2001 to April 2014, and Senior Manager of Equities at Bradesco Templeton Asset Management Ltda. from June 1998 to June 2001. Previously, he also held the position of Director at the banking company ABN AMRO from February 1995 to June 1998 and he served as an equity portfolio manager, investment analysis manager and analyst at Unibanco from June 1985 to January 1995. From January 1983 to June 1985, he worked at Banco Bozano Simonsen in the credit area, and from March 1971 to September 1982 at the bus company Vila Carrão Ltda. in the administrative and financial area. Mr. Alves was a member of the Investment Committee and of the Assets Allocation Committee of BRAM from 2001 to 2015, and was also member of the Monthly Committee of BRAM with the vice-presidents of Banco Bradesco. He serves as fiscal council member of Cielo S.A. and Grendene S.A., both since 2015. Mr. Alves was a member of the Board of Directors of Marfrig Brazil Foods from 2015 to 2016, he occupies the position as a member of the Mergers and Acquisitions Committee (*Comitê de Aquisições e Fusões*) since 2015 and the position as a member of the Council of Supervision of the Investment Analysts (*Conselho de Supervisão dos Analistas de Investimentos*), or CSA since 2016. He was also a Board of Directors member of the Association of Capital Markets Investors (*Associação dos Investidores do Mercado de Capitais*) from 2011 to 2016, President of the Private Equity Funds Commission of Anbima (*Comissão de Fundos*)

Table of Contents

de Ações de Anbima) from 2012 to 2016, and he was technical director and adviser of the Brazilian Association of Capital Markets (*Associação Brasileira de Mercado de Capitais*), or ABAMEC / SP, from 1982 to 1992. In addition, he served as advisor to various private equity investment funds and since 2012 he has been an alternate member of the Board of Directors of the fund 2BCapital. Mr. Alves was also a Professor at Fundação Armando Alvares Penteado - FAAP.

Stefano De Angelis. Mr. De Angelis is an Italian citizen, graduated in economics from the University of Rome “La Sapienza” and has an MBA from the University of Torino. He has extensive experience in the telecommunications industry and joined in TIM Participações, as the Chief Executive Officer, in May 2016. Before that, he held the position of Commercial Director at Telecom Italia in the period from 2014 to 2016, Chief Executive Officer at Telecom Argentina in the period from 2013 to 2014 and Director of Planning and Control at Telecom Italia from 2007 to 2013. Mr. De Angelis previously worked at TIM Participações SA, from 2004 to 2007, when he held the position of Chief Financial Officer. In addition, he has held other executive functions within Telecom Italia group.

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

Board of Executive Officers

Pursuant to 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 twelve 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) Investors Relations Officer, (4) Purchasing & Supply Chain Officer, (5) Chief Operating Officer, (6) Regulatory and Institutional Affairs Officer, (7) Legal Officer; and (8) 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 2018 annual shareholders’ meeting:

Name	Title	Date of Birth	Date Appointed
Stefano De Angelis	Chief Executive Officer	August 22, 1967	May 11, 2016
Adrian Calaza	Chief Financial Officer	March 8, 1967	September 2, 2016
Rogério Tostes Lima	Investors Relations Officer	February 13, 1971	May 11, 2016

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Daniel Junqueira Pinto Hermeto	Purchasing & Supply Chain Officer	April 27, 1971	May 11, 2016
Pietro Labriola	Chief Operating Officer	October 1, 1967	May 11, 2016
Mario Girasole	Regulatory and Institutional Affairs Officer	June 8, 1968	May 11, 2016
Jaques Horn	Legal Officer	March 15, 1964	May 11, 2016
Leonardo de Carvalho Capdeville	Chief Technology Officer	September 4, 1969	May 11, 2016

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

Stefano De Angelis. See “—Board of Directors.”

Adrian Calaza. Mr. Calaza is an Argentine citizen, graduated in business administration from the University of Belgrano and holds an MBA in Management and Business Administration from the University of CEMA. With extensive experience in the telecommunications industry, Mr. Calaza was elected Chief Financial Officer in TIM Participações SA in September 2016. Before that, he held the position of Chief Financial Officer in Telecom Argentina from 2009 to 2016, where he also was Corporate Administrative Services Manager from 2007 to 2009. Previously, Mr. Calaza held various executive roles, including Capital Expenditures and Control Manager at TIM Participações S.A. from 2006 to 2007, Chief Financial Officer at Telecom América Latina S.A. from 2004 to 2005 and Chief Financial Officer in Entel S.A. from 2000 to 2004. Mr. Calaza joined the Telecom Italia Group in January, 1999, where he held various positions, including Chief Financial Officer of Entel S.A., in Bolivia, a subsidiary of the Telecom Italia Group and Corporate Chief Financial Officer of Telecom América Latina S.A in Brazil.

Table of Contents

Rogério Tostes Lima. Mr. Tostes holds a degree in Business Administration from FUMEC-MG and Master of Business Administration, or MBA, from Ohio University and Fundação Getulio Vargas (FGV). In 1996, he joined an audit team from Arthur Andersen responsible to evaluate/split Telebras system and prepare the privatization process. Right after that, in 1999, Mr. Tostes worked for Banco Safra overlooking its two mobile companies, BCP/BSE operations in SP and Northeast. From 2002 till 2008, we worked as Equity Sellside Analyst for Banco Safra and then for Banco Santander. He has been at TIM Brasil since 2008 and Investors Relations Officer since 2011.

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.

Pietro Labriola. Mr. Labriola is an Italian citizen with a degree in Administration from Universidade de Studi di Bari and a masters in Innovation and Technology Management from ASMIT Advanced School. With more than 20 years of experience in the telecommunications sector, Mr. Labriola assumed the position of Chief Operating Officer at TIM Participações in August 2015 and, in February 2017, the position of Chief Executive Officer at Intelig. Prior to this, he held the following positions in the Telecom Italia group: Chief Transformation Officer from 2013 through 2015, Executive Vice President Business Market from 2009 through 2012, Executive Vice President Fixed Line Services from 2007 through 2008, Executive Vice President Marketing from 2001 through 2006. From 1996 through 2001, Mr. Labriola held positions as Marketing Director and Business Director at Infostrada Serviços de Comunicações Fixas.

Mario Girasole. Mr. Girasole is an Italian citizen with a 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), Harvard (School of Government), Columbia Business School (Advanced Management Program) and INSEAD (International Directors Programme). He joined TIM in 1997, for the regulatory and pricing area, in Rome. 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). Starting from 2004, he was Head of Public and Regulatory Affairs at Telecom Italia America Latina and at TIM Brasil. During this period, he worked also as Director of Entel Bolivia and Alternate Director of TIM Participações. Mr. Girasole is the Regulatory and Institutional Affairs Officer of the Company since January 2009 and since 2012, he runs the Press Relations and the Corporate Social Responsibility departments. He is also member of the Boards and Councils of national and international entities, including SindiTelebrasil, GSM Latin America, Italo-Brazilian Chamber of

Commerce and the Brazilian Institute for Competition Studies (*Instituto Brasileiro de Estudos da Concorrência*), or IBRAC. In September 2014, Mr. Girasole was awarded as Knight of the Order of the Star of Italy by the President of the Italian Republic “for promoting friendly relations and co-operation with other countries and ties with Italy.”

Jaques Horn. Mr. Horn graduated in Law (LLB) at Candido Mendes University, and obtained specializations at Harvard and at the Academy of International and American Law. He has been Chief Legal Officer at TIM since July 2010 and Secretary of the Company’s Board of Directors since 2012. He worked at Tetra Pak from 2007 to 2010, as Legal Director, where he was responsible for the Central and South America and the Caribbean region. He also worked at Shell, from 1994 to 2007, as Legal Corporate Manager at the holding company and Legal Director at the subsidiary companies. Mr. Horn worked as Legal Counsel at Companhia Atlantic de Petroleo (ARCO Petroleum Co.) from 1990 to 1994, as a Lawyer at Franco, Bhering, Barbosa & Novaes Law Firm for one year, and as a Tax Senior Consultant at Arthur Andersen for almost four years.

Leonardo de Carvalho Capdeville. Mr. Capdeville holds a degree from Instituto Nacional de Telecomunicações – INATEL in Electronic Engineering, specializing in Telecommunications. He also holds an MBA from Fundação

Table of Contents

Getúlio Vargas in Rio de Janeiro, Brazil. Mr. Capdeville also attended the International Program of Management Development at IEDE - Institute for Executive Development in Madrid, Spain and to the Disruptive Innovation Program by the Harvard Business School. Currently, he is Chief Technology Officer of the Company, elected on February 12, 2015 and a member of the Trustee Council of the Telecommunications Research and Development Center (*Centro de Pesquisa e Desenvolvimento de Telecomunicações*), or CpQD. Prior to that, Mr. Capdeville was responsible for the Network, IT and Wholesale departments at the Company. From 1998 to 2014, Mr. Capdeville was a Network Director at Telefônica Brasil (under the brand name Vivo). Mr. Capdeville also worked at Promon Eletrônica Ltda, or Promon, from 1991 to 1995 and then from 1996 to 1998. While at Promon, he held the position of engineer responsible for implementing the mobile telephony in the State of Espírito Santo, Brazil, and performed other activities related to network projects. From February 1995 to October 1996, Mr. Capdeville worked at Gerenciamento e Assessoria de Serviços S/C Ltda., as coordinator of the implementation of the team and of the data communication area.

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, elected by our controlling shareholder. None of the members were elected by the minority shareholders.

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

Name	Date of Birth	Date Appointed
Alberto Emmanuel Carvalho Whitaker	October 10, 1940	April 14, 2015
Adhemar Gabriel Bahadian	October 22, 1940	April 14, 2015
Herculano Aníbal Alves ^(*)	February 27, 1953	April 14, 2015

(*)

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.

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

Table of Contents

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; and (x) analyze any complaints received by the whistleblowing channel of the Company and its respective envisaged actions of improvement.

Fiscal Council

The current composition of the Fiscal Council consists of three members elected by our controlling shareholder. None of the members were elected 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 2017:

Name	Date of Birth	Date Appointed
Oswaldo Orsolin	May 30, 1943	April 12, 2016
Jarbas Tadeu Barsanti	March 18, 1951	April 12, 2016
Josino de Almeida Fonseca	February 12, 1940	April 12, 2016

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 a Control and Risks Committee.

Compensation Committee

The Compensation Committee was established by the Board of Directors on September 30, 2008 to: (1) prepare proposals for our Board of Directors regarding allotment of the overall annual remuneration approved by general shareholders' meeting; (2) provide our Board of Directors with proposals concerning the remuneration of our executive officers; (3) evaluate the compensation criteria of Company's executive officers; and (4) monitor the performance of the decisions taken by management and the Company's policies relating to senior executive compensation; and (5) analyze other matters concerning the compensation of the Company's members, as delegated by the Board of Directors.

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	April 14, 2015
Oscar Cicchetti	June 17, 1951	April 14, 2015

Table of Contents

Name	Date of Birth	Date Appointed
Francesca Petralia	August 30, 1953	April 14, 2015

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) requesting information from the Board of Executive Officers regarding specific processes or issues of the Company and / or its subsidiaries, whenever it deems appropriate; (h) supervising and monitoring issues related to the social responsibility of the Company, aiming at the sustainable development of the Company and / or its subsidiaries, and monitoring the Company's compliance with the principles established in our Code of Ethics and Conduct; and (i) 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 Control and Risks committee:

Name	Date of Birth	Date Appointed
Franco Bertone	April 9, 1952	April 14, 2015
Francesca Petralia	August 30, 1953	April 14, 2015
Alberto Emmanuel Carvalho Whitaker	October 10, 1940	April 14, 2015
Piergiorgio Peluso	March 25, 1968	April 14, 2015
Adhemar Gabriel Bahadian	October 22, 1940	April 14, 2015

B. Compensation

In a meeting to be held on April 19, 2017, the shareholders will vote on the aggregate amount of approximately R\$27.2 million as compensation to our executive officers and approximately R\$2.6 million as compensation to our

board of directors during 2017. The executive 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 2017. The aggregate compensation to our executive officers in the year ended December 31, 2016, including fixed remuneration, benefits, bonuses, short-term incentive and long term incentive plans, was approximately R\$18.7 million considering INSS (approximately R\$17.6 million without INSS).

Our executive 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 executive 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, 2016, each member of our Board of Directors received R\$394,800 considering INSS (R\$329,000 without INSS) and each member of our Fiscal Council received annual compensation of

Table of Contents

R\$202,929 considering INSS (R\$169,107 without INSS), 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, 2016, we had 9,863 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, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
Network	1,813	1,966	1,972
Sales and marketing	3,414	4,195	4,095
Information technology	484	517	512
Customer care	2,734	5,033	5,233
Support and other	1,418	1,351	1,048
Total number of employees	9,863	13,062	12,860

All employees are represented by state unions affiliated with the following federations: National Federation of Telecommunications Workers and the Workers' Federation. We negotiate annually a new collective bargaining agreement and profit sharing program with both unions. Management believes that our relationships with our workforce are satisfactory. We did not experience 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.

Table of Contents

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. 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

Table of Contents

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 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, 2016, our directors and executive officers, owned, in the aggregate, 27,093 common shares, which represented 0.001% 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 table sets forth information relating to the ownership of common shares by 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.	1,611,969,946	66.582	%
All our officers and directors as a group*	27,093	0.001	%
Total	1,611,997,039	66.583	%

* Represents less than 1%.

Since TIM Brasil owns 66.582% 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.

As of December 31, 2016, there were 448,318,815 common shares represented by ADSs. As of such date, the number of common shares represented by ADSs represented 18.52% of our total capital.

Table of Contents

TIM Brasil is a wholly owned Brazilian subsidiary of Telecom Italia International, which in turn is a wholly owned Dutch subsidiary of Telecom Italia. Telecom Italia is a corporation organized under the laws of the Republic of Italy. In turn, the single largest shareholder of Telecom Italia is Vivendi, which is able to exercise significant influence over Telecom Italia. See “Item 4. Information on the Company—C. Organizational Structure.”

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.

Telecom Italia is one of four mobile operators authorized to provide services using GSM 900 technology in Italy and one of four operators authorized to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS authorization and providing 3G telephony services in Italy and it is one of the three operators that acquired a 800MHz spectrum in 2011 to provide 4G services in Italy. In addition, TIM has 2600 MHz and 1450 MHz licenses.

As of December 31, 2016 the Telecom Italia Group had approximately 11.3 million physical retail accesses in Italy, a decrease of 0.5 million compared to December 31, 2015. The wholesale customer portfolio in Italy was approximately 7.7 million accesses for telephone services at December 31, 2016, an increase of 0.2 million accesses compared to December 31, 2015. The broadband portfolio in Italy reached 9.2 million accesses at December 31, 2016 (consisting of approximately 7.2 million retail accesses and 2 million wholesale accesses), substantially stable compared to December 31, 2015 (8.9 million accesses). In addition, the Telecom Italia Group had approximately 29.6 million mobile telephone lines in Italy at December 31, 2016, a decrease of approximately 0.4 million compared to December 31, 2015.

Significant Changes in Percentage Ownership of Principal Shareholders

None.

Shareholders' Agreements

None.

B. Related Party Transactions

As of December 31, 2016, we did not owe to our affiliates any amounts arising out of outstanding inter-company loans. We had receivables and payables in amounts of R\$20,978 thousand and R\$78,924 thousand, respectively on December 31, 2016 with companies of the Telecom Italia Group. See Note 36 to our consolidated financial statements.

Guarantees of Obligations of our Subsidiaries

We are guarantor for TIM Celular's Finance Contract with European Investment Bank in the principal amount of €150 million as of December 31, 2016. European Investment Bank has also bank guarantees from SACE SpA and KfW IPEX in the principal amount of U.S.\$141.3 million and €52.5 million, respectively.

We are guarantor in favor of BNDES, in the amount of R\$5,243 million as of December 31, 2016, under the Credit Agreements of TIM Celular and Intelig.

We are guarantor in favor of KfW IPEX, in the amount of U.S.\$56 million as of December 31, 2016, under the Loan Agreement of TIM Celular.

We are guarantor in favor of KfW IPEX, in the amount of U.S.\$37 million as of December 31, 2016, under the Loan Agreement of TIM Celular between Finnish Export Credit as lender and KfW IPEX as facility agent.

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—Sources of Funds—Financial Contracts."

Table of Contents

Agreement between Telecom Italia and TIM Participações and our Subsidiaries

At the shareholders' meeting to be held on April 19, 2017, our shareholders will vote on an extension of the Cooperation and Support Agreement, originally signed on May 3, 2007 with Telecom Italia, for an additional 12 month period until April 30, 2018. 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 on adding value to our operations through:

Benefiting from Telecom Italia's experience and industrial capacity as one of the major players in the European market;

Applying the systems/services/processes/best practices that were largely used in the Italian market and may be easily customized for the Brazilian market through limited investments and mitigated implementation risks; or

- An increase in efficacy and efficiency by adopting in-house solutions that have been widely tested and used.

The extended term of the agreement provides for a total price cap of € 10.875 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 2017 and 2018 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

The Company and its subsidiaries are subject to judicial and administrative proceedings, including civil, labor, tax and regulatory claims 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. For civil, labor, tax and regulatory proceedings where risk of loss has been classified as possible, there is no provision made and these proceedings are not expected to have a material adverse effect on our business or financial condition. 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.

In this annual report on Form 20-F, we disclose in detail those legal proceedings which we and our legal advisers have determined to be material, along with overall summaries and the aggregate value of our legal proceedings where risk of loss is probable.

Consumer Lawsuits

As of December 31, 2016, our subsidiaries are party to consumer lawsuits at the judicial and administrative levels where the risk of loss is considered probable amounting to R\$105,112 thousand (R\$51,962 thousand as of December 31, 2015). These lawsuits relate to questions regarding alleged improper billing, contract cancellation, quality of services, defects and flaws in the delivery of equipment and undue restriction.

Table of Contents

PROCON and Public Prosecutor's Office

TIM is involved in judicial and administrative proceedings brought by PROCON and various state public prosecutor's offices where the risk of loss is considered probable in the amount of R\$4,705 thousand as of December 31, 2016 (R\$3,324 thousand as of December 31, 2015). These proceedings arise from consumer complaints related to alleged: (i) failures in the provision of network services; (ii) bundling arrangements for product and services; (iii) issues related to quality care; (iv) violations of PROCON's Customer Service Rules (*Novas Regras Para o Serviço de Atendimento ao Consumidor*); (v) contractual violations; (vi) misleading advertising; and (vii) suspension of loyalty benefits in cases of theft of cell phones.

Lawsuits by Former Business Partners

TIM is a defendant in lawsuits filed by certain former commercial partners for alleged breach of contract. The amounts involved for such lawsuits where the risk of loss is considered probable are of R\$8,661 thousand as of December 31, 2016 (R\$18,496 thousand as of December 31, 2015).

A lawsuit filed by Botafogo Comércio e Importação Ltda. against 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. In the meantime, TIM Celular filed an action to reverse the judgment, in which the Court rendered a decision to partially uphold TIM's claims, in order to modify the methodology of calculation of damages, lost profits and moral damages. The calculations of such damages, prepared by a retained expert witness, total approximately R\$2,773 thousand (historical date January 12, 2015). Currently, TIM is waiting for a decision to be handed down in respect of Botafogo Comércio e Importação Ltda's appeal.

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 Comércio e Representação Ltda., or DM5. However, DM5 did not pay the transfer fees to TVM, and TVM subsequently filed a collection lawsuit. TIM Celular and DM5 were jointly and severally ordered by the Court of Appeals to pay an amount of R\$4,019 thousand (plus interest and penalties). TIM Celular has filed an appeal of the appellate decision to the Federal Superior Court. In 2016, during the enforcement phase, TIM Celular and TVM settled this case.

Environmental and Infrastructure

As of December 31, 2016, our subsidiaries are party to lawsuits with various actors arising from environmental licensing and installation / operation licensing issues. The amounts involved in such lawsuits where the risk of loss is considered probable are R\$3,390 thousand as of December 31, 2016 (R\$3,692 thousand as of December 31, 2015).

Other

We are also party to other civil claims brought by several third-parties mentioned above, in respect of, among others: (i) renewal of lease agreements; (ii) equity subscription of shares; (iii) compensation claims; (iv) alleged breach of contract; and (v) debt actions. The amounts involved in such civil claims where the risk of loss is considered probable are R\$20,120 thousand as of December 31, 2016 (R\$15,346 thousand as of December 31, 2015).

Additionally, Intelig is involved in a lawsuit filed by a creditor of Editora JB and Gazeta Mercantil. The judge in that case ordered a seizure order on Intelig's bank account in the amount of R\$3,373 thousand based on the reasoning that Editora JB and Gazeta Mercantil are part of the same economic group as Intelig. Intelig has filed an interlocutory appeal, which was not granted. After that, Intelig filed a request for amendment, which was also rejected. Intelig filed an appeal to the Superior Court (*Superior Tribunal de Justiça*), which also was denied.

Table of Contents

Labor Claims

A significant percentage of our labor claims relate to either claims filed by former employees of service providers who, in accordance with Brazilian labor legislation, have filed claims against us on the grounds that we are responsible for labor-related obligations not satisfied by the service provide companies, or our organizational restructuring processes, in particular the closure of our customer service call centers, 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. The case is suspended since 2015, due a Federal Supreme Court decision applicable to all call centers' outsourcing claims of telecommunications companies.

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. The case is suspended, due the application for overturning due a Federal Supreme Court decision applicable to all call centers' outsourcing claims of telecommunications companies.

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.

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

Table of Contents

decision in the administrative proceedings with respect to the assessment for 11% withholding on service agreements, a legal action, with the amount of R\$ 1,439,648.23, was filed to reverse the assessment.

Tax Claims

Federal Taxes

The total federal tax claims, not including the regulatory taxes (FUST/FUNTEL/FISTEL and other) assessed against the Company is equal to R\$3,560,440. The most relevant claims assessed are:

Tax carryforward loss (CIT) and negative basis of Social Contribution on Profits (CSLL) compensation disallowance; challenge to the goodwill expenses deduction; disallowance of WHT compensation due to alleged lack of documental support; lack of payment of CIT/CSLL due on a monthly estimate basis; fine for failure to present digital files; failure to formal requirement and compliance procedures related to Regional Tax Incentives (SUDENE) The amount in dispute, classified as a possible contingency is R\$2,190,975 (R\$1,928,242 on December 31, 2015).

Alleged improper credits that resulted in tax carryforward losses and CSLL negative basis compensation disallowance. The amount in dispute, classified as a possible contingency, is R\$185,001 (R\$154,665 on December 31st, 2015).

Social contribution on net income on exchange variation resulting from swap operations accounted for on a cash basis. The amount in dispute is approximately R\$58,914 (R\$54,206 on December 31, 2015).

Withholding tax collection on income of residents abroad, including those remitted as international roaming and payment to unidentified beneficiaries, as well as the payment of CIDE on royalties remittances abroad, including international roaming The amount in dispute is R\$229,061 (R\$212,271 on December 31st, 2015). Regarding Intelig, the amount in dispute is R\$52,963 (R\$44,098 on December 31, 2015).

Alleged failure to calculate and collect corporate income tax, PIS/COFINS and social contribution on profits due to (i) total or partial disregard, by the Brazilian Internal Revenue Service (Receita Federal do Brasil), of the compensations proceeded and from CIT negative balance calculated on previous years The amount in dispute is R\$412,741 (R\$353,705 on December 31, 2015).

State Taxes

The total state tax claims assessed against the Company is equal to R\$6,982,809. The most relevant claims assessed are:

Alleged incorrect deduction of unconditional discounts offered to customers in the ICMS basis of calculation, as well as penalties for alleged noncompliance with an accessory obligation. The amount in controversy is R\$1,200,113 (R\$1,222,432 as of December 31, 2015).

Use of tax benefit (Program for the Economic, Integrated and Sustainable Development of the Federal District - PRO-DF) granted by the state tax authority, which was later declared unconstitutional by the Supreme Court. Additionally, the company was assessed due to alleged undue credit of ICMS resulting from interstate purchase of goods with tax benefit granted in the state of origin. The amount in controversy is R\$985,842 (R\$813,255 as of December 31, 2015).

ICMS credits reversal and credits arising from the acquisition of fixed assets. The amount in controversy is R\$907,777 (R\$721,631 as of December 31, 2015).

ICMS credit entries and debt reversals, identification and documentation support of amounts and information included in clients' bills, such as the tax rate and credits granted, as well as credits arising from ICMS substitution or nontaxable operations. The amount in controversy is R\$1,230,516 (R\$950,459 as of December 31, 2015).

Table of Contents

Appropriation of ICMS credits originated from operational energy consumption and acquisition. The amount in controversy is R\$322,722 (R\$197,214 as of December 31, 2015).

Alleged lack of ICMS collection on network infrastructure sharing operations considering that the originally deferred tax was formerly not collected in accordance with Ordinance No. 128/98. The amount in controversy is R\$112,537 (R\$100,980 as of December 31, 2015).

Incidence of ICMS and the State Poverty Fund (*Fundo Estadual de Combate à Pobreza – FECOP*), on the acquisition of fixed assets and on telecommunication services provided in specific cases set forth in local legislation. The amount in controversy is R\$169,431 (R\$145,975 as of December 31, 2015).

Alleged conflict between the information filed in the accessory obligations and the tax collection as well as charge of specific penalty for noncompliance with those obligations. The amount in controversy is R\$234,006 (R\$81,977 as of December 31, 2015).

Alleged non-payment of ICMS due to the use of reversed debits related to the prepaid service, as well as alleged undue ICMS credit on goods alleged to have benefited from reduction in the calculation basis. The amount in controversy is R\$69,195 (R\$84,657 as of December 31, 2015).

ICMS taxation on international roaming services provided. The amount in controversy is R\$39,665 (R\$36,478 as of December 31, 2015).

ICMS credits entries regarding the tax treatment of handsets loan operations. The amount in controversy is R\$105,418 (R\$24,397 as of December 31, 2015).

Telecom service cancellation due to improper billing / subscription fraud and alleged undue credit and duplication of ICMS. The amount in controversy is R\$22,499 (R\$25,419 as of December 31, 2015).

Municipal Taxes

The total municipal tax claims assessed against the Company equal R\$509,613. The most relevant subjects assessed are:

(i)

supposed lack of ISS collection regarding services import. The amount in dispute is R\$128,145 (R\$119,333 on December 31, 2015).

(ii) charge of ISS tax and penalties due to the supposed lack of collection over the company's revenue accounts. The amount in controversy is R\$183,962 (R\$171,507 as of December 31, 2015)..

FUST, FUNTTEL and EBC

The total amount assessed against the Company is R\$2,779,295 (R\$2,216,144 as of December 31, 2015).

The main claim involves the collection of FUST and FUNTTEL following the issuance by ANATEL of Ordinance no. 07/2005, aiming specifically at the collection of these contributions on interconnection revenues earned by telecommunications services providers from the date upon which Law. 9,998 / 2000 came into force.

Additionally, there is a discussion over the charge of a contribution to the development of public broadcasting (Contribution to EBC - Empresa Brasileira de Comunicação), established by Law No. 11.652 / 2008.

Material Proceedings with Adverse Director, Management or Affiliate

None.

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

Table of Contents

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.

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:

Table of Contents

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.

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 ticker “TIMP3” and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the ticker “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 31, 2016, the last reported sales price of our common shares on the BM&FBOVESPA was R\$7.83 and on December 31, 2015, the last reported sales price of our ADSs on the NYSE was U.S.\$11.80. As of December 31, 2016, the U.S. dollar-*real* exchange rate was R\$3.2591 per U.S.\$1.00.

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.

Table of Contents

Additionally, as of such date, our shares started trading on the *Novo Mercado* segment of the BM&FBOVESPA. Pursuant to the *Novo Mercado* Regulations, we are not permitted to issue preferred shares, participation bonuses or any kind of shares with restricted voting rights.

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

Year ended	NYSE		BM&FBOVESPA		BM&FBOVESPA	
	High	Low	High	Low	High	Low
	(in U.S.\$ per ADS)		(in <i>reais</i> per preferred share)		(in <i>reais</i> per common share)	
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
December 31, 2014	30.16	21.51	N/A	N/A	13.83	10.49
December 31, 2015	24.38	8.44	N/A	N/A	12.88	6.56
December 31, 2016	13.85	7.12	N/A	N/A	8.86	5.68
Year ended December 31, 2015						
First quarter	24.38	16.47	N/A	N/A	12.88	10.63
Second quarter	17.30	14.46	N/A	N/A	10.70	8.72
Third quarter	16.82	9.42	N/A	N/A	10.39	7.51
Fourth quarter	11.45	8.44	N/A	N/A	8.70	6.56
Year ended December 31, 2016						
First quarter	11.38	7.12	N/A	N/A	8.24	5.68
Second quarter	11.20	9.29	N/A	N/A	8.10	6.39
Third quarter	13.50	10.15	N/A	N/A	8.63	6.81
Fourth quarter	13.85	11.28	N/A	N/A	8.86	7.56
Month ended						
October 31, 2016	13.85	12.28	N/A	N/A	8.86	8.01
November 30, 2016	13.77	11.79	N/A	N/A	8.81	7.92
December 31, 2016	12.26	11.28	N/A	N/A	8.30	7.56
January 31, 2017	14.32	12.30	N/A	N/A	9.05	7.73
February 29, 2017	16.15	14.12	N/A	N/A	10.01	8.88
March 31, 2017	16.70	15.28	N/A	N/A	10.30	9.71
April 2017 (through April 7, 2017)	16.54	15.93	N/A	N/A	10.37	10.02

B. Plan of Distribution

Not applicable.

C. Markets

Our common shares are listed on the *Novo Mercado* segment of the BM&FBOVESPA, under the ticker “TIMP3” and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the ticker “TSU.” For additional detail, see “—A. Offer and Listing Details.”

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.

Table of Contents

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*.

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:

Table of Contents

- 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 unstagged 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 28% 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 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.

Table of Contents

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.

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

Table of Contents

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.

Table of Contents

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 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

Table of Contents

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:

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

Table of Contents

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.

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;

Table of Contents

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 side, 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 side, 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.

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;

Table of Contents

- 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.

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.

Table of Contents

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.

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

Table of Contents

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 depository 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 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 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 holder in a Low or Nil Tax Jurisdiction 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

Table of Contents

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 a more 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.

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.

Table of Contents

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.

On March 16, 2016, the Federal Government converted Provisional Measure No. 692 into Law No. 13,259, which established progressive income tax rates applicable to capital gains derived from the sale of assets by Brazilian individuals. Furthermore, Law No. 13,259 provides the new rates, which range from 15% to 22.5%, depending on the gain derived by the Brazilian individual, as follows: (i) 15% on gains not exceeding R\$5,000,000.00; (ii) 17.5% on gains over R\$5,000,000.00 and not more than R\$10,000,000.00; (iii) 20% on gains over R\$10,000,000.00 and not higher than R\$30,000,000.00; and (iv) 22.5% on gains over R\$30,000,000.00.

According to Article 18 of Law 9,249/95, tax treatment applicable to capital gains earned by Brazilian individuals also applies to capital gains from the foreign residents (in transactions not carried out on the Brazilian stock exchange or over the counter market). Therefore, the new rates defined by Law No. 13,259 will also apply to foreign residents. These new provisions shall only take effect as of January 1, 2017.

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 (as amended by National Treasury Ordinance No. 488 of November 1, 2014) 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 17%; (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.

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

Table of Contents

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 depositary 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.

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

Table of Contents

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.

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

Table of Contents

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 depository's receipt of the dividend. The amount of any dividend income paid in *reais* will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of its receipt.

Sale or Other Disposition of 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.

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.

Table of Contents

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/Bonds Tax and any 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 taxes 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 2016 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.

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,

Table of Contents

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 our 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, 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. 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 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.

Table of Contents

Interest Rate Risk

On December 31, 2016, the amount of our outstanding debt which accrued interest at the CDI, TJLP, SELIC and IPCA floating interest rates totaled R\$6,139 million. On the same date, we had cash and cash equivalents, in the amount of R\$5,128 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, 2016 would have resulted in a variation of R\$6 million in our interest expenses from financial contracts and a variation of R\$5 million in our income 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, 2016, 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. In order to hedge part of the exchange rate risk linked to capital expenditures and operating expenses, the Company has invested R\$480 million in a U.S. dollar-denominated hard currency fund. 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 Chase Bank, N.A., with its corporate trust office at which the ADRs will be administered is located at 4 New York Plaza, Floor 6, New York, NY, 10004, United States.

Each ADS represents five common shares, deposited with the custodian and registered in the name of the depositary.

Charges of Depositary

The depositary may charge U.S.\$5.00 per 100 ADSs (or portion thereof) from each person to whom ADRs are issued against deposits of 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

Table of Contents

stock regarding the ADRs or deposited securities or a distribution of ADRs pursuant to the deposit agreement), whichever is applicable:

Depository Actions:	Description of Fees Incurred by ADR Holders per Payment:
Depositing or substituting the underlying shares	U.S.\$5.00 per 100 ADSs (or portion thereof)
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 As necessary, expenses incurred by the depository in connection with the conversion of <i>reais</i> into U.S. dollars
General depository services	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 depository in connection with the delivery of deposited securities or otherwise in connection with the depository's or its custodian's compliance with applicable laws, rules or regulations.

Ongoing Reimbursements by the Depository

J.P. Morgan, as depository, has agreed to reimburse certain reasonable Company's expenses related to the establishment and maintenance of the ADR program. Such reimbursable expenses include legal fees, investor relations servicing, investor related presentations, broker reimbursements, ADR- related advertising and public relations in those jurisdictions in which the ADRs may be listed or otherwise quoted for trading, accountants' fees in relation to this Form 20-F filings with the SEC and other bona fide Program-related third party expenses.

During the year ended December 31, 2016, we received from our depository U.S.\$ 3,025,207.70 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.”

133

Table of Contents

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, 2016. 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 Chief Executive Officer and Chief 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, 2016. 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 2013. Our management concluded that as of December 31, 2016, 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, 2016.

(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, 2016. 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.

Table of Contents

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. In 2016, we have three members. Our Statutory Audit Committee has determined that one of its members, Mr. Herculano Anibal Alves, an independent member 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

Code of Ethics

We have adopted a Code of Ethics 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, members of our boards and committees, all employees and suppliers in accordance with CVM rules satisfying the requirements of Brazilian Law. Our Code of Ethics is filed as an exhibit to this annual report and is available on our website at <http://www.tim.com.br/ir>. The Code of Ethics 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 Ethics was updated on the Board of Directors’ meeting held on May 3, 2010.

Our Code of Ethics addresses most 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.

Anti-Corruption Policy

In order to ensure compliance with existing Brazilian and international corruption laws and minimize the risks associated with the same, the Company has adopted an Anti-Corruption Policy (*Política Anticorrupção*). Our Anti-Corruption Policy was approved by our Board of Directors on May 24, 2013, and focuses on internal mitigating controls to be followed to avoid vulnerability to corrupt practices. In conjunction with the adoption of this Anti-Corruption Policy, we also provide anti-corruption training courses to our managers, directors and employees.

Anti-Corruption Organizational Model

We have adopted an Anti-Corruption Organizational Model (*Modelo Organizacional para os fins da Lei Anticorrupção*), presented to and approved by our Statutory Audit Committee and our Risk and Control Committee in a joint meeting on July 30, 2014 and approved by our Board of Directors on August 5, 2014. The Anti-Corruption Organizational Model is an integral part of the Company’s legal and regulatory compliance program, with the purpose of generally promoting honest and ethical conduct, and deterring wrongdoings within the Company. The provisions of the Anti-Corruption Organizational Model also specifically align with Legislative Decree No. 231/01 of Italy, the Brazilian Anti-Corruption Law and international standards on anti-corruption, such as the Foreign Corrupt Practices Act and the UK Bribery Act 2010. We also provide training on the content of our Anti-Corruption Organizational Model by means of in-person courses and e-learning sessions.

Table of Contents

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, 2016 and 2015:

	Year ended December 31,	
	2016	2015
	(in thousands of <i>reais</i>)	
Audit fees	4,963	3,261
Audit-related fees	169	706
Tax fees	–	–
All other fees	2,137	3,885
Total fees	7,269	7,852

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 2016, our external auditors provided audit and audit-related services other than in connection with the audit of our financial statements. Such services included the review of the information Accounting Separation and Allocation Document (DSAC).

TIM and all other telecommunications and media operators in Brazil are required by Anatel to have certain quality indicators in the provision of multimedia and mobile services measured by an independent expert. In October 2011, Anatel published Regulations 574 and 575, which mandated the selection of a body responsible for measuring the quality of Brazilian broadband services offered to the population. As result, Anatel defined all the quality indicators and determined that PricewaterhouseCoopers EAQ Ltda., or PwC EAQ, would be engaged to provide this measurement service, with the total value of the services split between the telecommunications and media operators companies. In 2016, TIM paid R\$2.1 million (R\$3.8 million in 2015) for such services provided by PwC EAQ under the aforementioned Anatel regulations.

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.

Table of Contents

Item 16F. Change in Registrant's Certifying Accountant

None.

Item 16G. Corporate Governance

Principal Differences Between Brazilian and US. Corporate Governance Practices

The significant differences between our corporate governance practices and those of the NYSE 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.

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 Control and Risks 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 independent, and 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.

Table of Contents

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.

Table of Contents

PART III

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.

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 Amended & Restated Deposit Agreement, dated as of February 27, 2017, among TIM Participações S.A., J.P. Morgan Chase Bank, N.A., as Depositary, and holders of American Depositary Receipts issued thereunder, which is incorporated by reference to Exhibit 99(A) to our Form F-6 POS filed with the Securities and Exchange Commission on February 27, 2017.
- 4.1* Promissory Note, dated as of June 8, 2016, between Bank of America, N.A., as bank, TIM Celular S.A., as borrower.
- 4.2* English Summary of Term of Authorization for Use of Radiofrequency Blocks Associated with Personal Mobile Service No. 113/2016/SOR-ANATEL, dated as of July 26, 2016, between Anatel (the National Telecommunications Agency) and TIM Celular S.A.
- 4.3* English Summary of Term of Authorization for Use of Radiofrequency Blocks Associated with Personal Mobile Service No. 114/2016/SOR-ANATEL, dated as of July 26, 2016, between Anatel (the National Telecommunications Agency) and TIM Celular S.A.

- 4.4 Loan Agreement, dated as of December 23, 2015, between Finnish Export Credit Ltd. as lender, KfW IPEX-Bank GmbH, as facility agent 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 April 14, 2016.
- 4.5 Facility Agreement, dated as of October 27, 2015, between Cisco Systems Capital Corporation, 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 April 14, 2016.
- 4.6 English Summary of Credit Agreement – Contrato de Financiamento Mediante Abertura de Crédito N° 15.2.0825.1, dated as of December 29, 2015, 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, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on April 14, 2016.
- 4.7 English Summary of Term of Authorization for Use of Radiofrequency Blocks Associated with Personal Mobile Service No. 144/2014/SOR-ANATEL, dated as of December 5, 2014, 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 April 15, 2015.
- 4.8 English Summary of Term of Authorization for Use of Radiofrequency Blocks Associated with Personal Mobile Service No. 145/2014/SOR-ANATEL, dated as of December 5, 2014, 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 April 15, 2015.

Table of Contents

- 4.9 English Summary of Term of Authorization for Use of Radiofrequency Blocks Associated with Personal Mobile Service No. 146/2014/SOR-ANATEL, dated as of December 5, 2014, 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 April 15, 2015.
- 4.10 Loan Agreement, dated as of April 15, 2014, between KfW IPEX-Bank GmbH, 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 April 15, 2015.
- 4.11 Facility Agreement Reference number TIMLAF2LT to Master Loan Agreement Reference No. TIMLALT, dated as of October 14, 2014, between Cisco Systems Capital Corporation, 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 April 15, 2015.
- 4.12 Promissory Note, dated as of July 31, 2013, between Bank of America, N.A., as bank, 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 April 15, 2014.
- 4.13 Finance Contract, dated as of June 20, 2013, between Cisco Systems Capital Corporation, 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 April 15, 2014.
- 4.14 Facility Agreement, dated as of August 28, 2013, between Cisco Systems Capital Corporation, 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 April 15, 2014.
- 4.15 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 and 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 April 15, 2014.
- 4.16 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., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on April 15, 2014.
- 4.17 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.
- 4.18 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.
- 4.19 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.

- 4.20 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.
- 4.21 Loan Agreement dated as of September 5, 2011, between Tim Celular and J.P. 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.

Table of Contents

- 4.22 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.
- 4.23 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.
- 4.24 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.
- 4.25 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.
- 4.26 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.
- 4.27 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.
- 4.28 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.
- 4.29 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.
- 4.30 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.
- 4.31 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.
- 4.32 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.
- 4.33 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.

4.34 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.

4.35 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.

Table of Contents

- 4.36 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.
- 4.37 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.
- 4.38 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.
- 4.39 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.
- 4.40 Authorization agreement for TIM Celular S.A. dated May 25, 2007 pursuant to which TIM is authorized to provide landline 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.
- 4.41 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.
- 4.42 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.
- 4.43 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.
- 4.44 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.
- 4.45 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.
- 4.46 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.
- 4.47 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.
- 4.48 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.

Table of Contents

- 4.49 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.
- 4.50 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.
- 4.51 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.
- 4.52 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.
- 4.53 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.
- 4.54 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.
- 4.55 Term of Authorization for Use of Radiofrequencies, dated as of November 30, 2005, between Anatel (the National Telecommunications Agency) and Intelig Telecomunicações Ltda., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 4.56 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.
- 4.57 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 35 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.
- 13.1* Section 906 Certification of the Chief Executive Officer.
- 13.2* Section 906 Certification of the Chief Financial Officer.

* Filed herewith.

143

Table of Contents

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.

FX: The term foreign exchange is usually abbreviated as “forex” and occasionally as “FX.” The foreign exchange is the exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around-the-clock.

GB: A measure of the unit for digital information, representing one billion bytes.

GPRS (General Packet Radio Services): An always-on packet switching technology, which supports WAP, SMS text messaging, and other data communications.

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.”

IP network: a communication network that uses Internet Protocol (IP) to send and receive messages by delivering packets from the source host to the destination host based on the IP addresses in the packet headers.

Table of Contents

LTE (Long Term Evolution): A wireless broadband technology designed to support roaming Internet access via cell phones and handheld devices.

MB: A measure of the unit for digital information, representing one million bytes.

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.

MOU (Minutes of Usage): The monthly average number of minutes of use of each mobile phone user.

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.

RF: Radio frequency, or a rate of oscillation which corresponds to the frequency of radio waves, and the alternating currents which carry radio signals.

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.

Table of Contents

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.

Dated: April 10, 2017

TIM PARTICIPAÇÕES S.A.

By: /s/ Stefano De Angelis

Name: Stefano De Angelis

Title: Chief Executive Officer

By: /s/ Adrian Calaza

Name: Adrian Calaza

Title: Chief Financial Officer

Table of Contents

TIM Participações S.A. and Subsidiaries

Financial statements as at

December 31, 2016

and Report of Independent Registered Public Accounting Firm

Table of Contents

TIM PARTICIPAÇÕES S.A.

FINANCIAL STATEMENTS

December 31, 2016 and 2015

Contents

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-3</u>
<u>Audited financial statements</u>	<u>F-4</u>
<u>Balance sheets</u>	<u>F-4</u>
<u>Income statements</u>	<u>F-6</u>
<u>Statements of comprehensive income</u>	<u>F-7</u>
<u>Statements of changes in shareholders' equity</u>	<u>F-8</u>
<u>Statements of cash flow</u>	<u>F-10</u>
<u>Notes to the financial statements</u>	<u>F-10</u>

Table of Contents

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, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of TIM Participações S.A. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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, 2016, based on criteria established in *Internal Control - Integrated Framework 2013* 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.

/s/ PricewaterhouseCoopers Auditores Independentes

Rio de Janeiro, Brazil

April 10, 2017

F-3

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET

(In thousands of *Reais*)

			2015	01/01/2015
	Notes		Revised	Revised
	2016		(Note 2(e))	(Note 2(e))
Assets				
Current Assets				
Cash and cash equivalents	4	5,128,186	6,100,403	5,232,992
Marketable securities	5	479,953	599,414	-
Trade accounts receivable	6	2,919,177	2,858,089	3,537,417
Inventory	7	143,934	141,720	264,033
Indirect taxes and contributions recoverable	8	633,854	924,624	1,287,046
Direct taxes and contributions recoverable	9	334,806	329,722	362,114
Prepaid expenses	11	130,392	210,056	266,264
Financial instruments	38	82,454	608,915	47,541
Financial leases	15	2,818	1,969	1,525
Regulatory credits recoverable	16	83,107	149,180	-
Other current assets		168,718	116,154	182,018
		10,107,399	12,040,246	11,180,950
Non-current Assets				
Long term receivables				
Marketable securities	5	-	-	41,149
Trade accounts receivable	6	24,092	24,861	29,886
Indirect taxes and contributions recoverable	8	867,143	817,676	574,490
Direct taxes and contributions recoverable	9	200,898	170,521	162,859
Deferred taxes	10	41,690	14,526	537,097
Judicial deposits	12	1,294,125	1,106,041	986,017
Prepaid expenses	11	54,374	55,234	70,587
Financial instruments	38	134,468	490,659	463,157
Financial leases	15	201,944	197,966	193,511
Other non-current assets		12,442	12,117	11,926
		2,831,176	2,889,601	3,070,679
Property, Plant and Equipment	13	11,084,530	10,667,348	8,914,929
Intangible assets	14	10,632,575	9,959,193	9,322,634
		24,548,281	23,516,142	21,308,242
Total assets		34,655,680	35,556,388	32,489,192

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

F-4

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET

(In thousands of *Reais*)

			2015	01/01/2015
	Notes	2016	Revised	Revised
			(Note 2(e))	(Note 2(e))
Liabilities				
Current Liabilities				
Suppliers	17	3,461,081	3,734,555	5,355,736
Borrowing and financing	19	1,145,225	2,326,187	1,281,554
Finance lease obligations	15	96,604	38,592	3,642
Financial instruments	38	36,163	109,512	67,044
Payroll and related charges		212,279	199,373	208,629
Indirect taxes, charges and contributions payable	20	453,130	501,768	645,896
Direct taxes, charges and contributions payable	21	363,739	213,880	162,311
Dividends payable	25	206,112	524,779	421,002
Authorizations payable	18	486,494	467,687	493,169
Deferred revenue	22	812,340	1,043,239	990,398
Other current liabilities		8,401	7,292	9,943
		7,281,555	9,166,864	9,639,324
Non-current liabilities				
Borrowing and financing	19	5,574,557	5,600,250	5,472,865
Finance lease obligations	15	1,705,634	1,579,914	326,027
Financial instruments	38	45,310	-	-
Indirect taxes, charges and contributions payable	20	112	103	94
Direct taxes, charges and contributions payable	21	258,840	243,151	229,027
Deferred taxes	10	108,358	120,730	129,206
Provision for legal and administrative proceedings	23	478,482	415,611	406,509
Pension plan and other post-employment benefits		1,586	1,275	645
Provision for decommissioning costs	24	21,726	31,609	286,275
Authorizations payable	18	900,138	690,285	879,012
Deferred revenue	22	1,061,304	1,098,689	137,585
Other current liabilities		30,565	30,585	30,609
		10,186,612	9,812,202	7,897,854
Total liabilities		17,468,167	18,979,066	17,537,178
Shareholders' Equity	25			

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Share capital	9,866,298	9,866,298	9,866,298
Treasury shares	(3,369)	(3,369)	(3,369)
Capital reserves	1,564,149	1,442,097	1,344,470
Accumulated other comprehensive income	(507)	1,887	2,303
Profit reserves	5,760,942	5,270,409	3,742,312
Total shareholders' equity	17,187,513	16,577,322	14,952,014
Total liabilities and shareholders' equity	34,655,680	35,556,388	32,489,192

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

F-5

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

STATEMENT OF INCOME

Years ended December 31

(In thousands of *Reais*, except otherwise stated)

			2015	2014
	Notes	2016	Revised	Revised
			(Note 2(e))	(Note 2(e))
Revenue	27	15,617,413	17,142,265	19,502,116
Cost of services provided and goods sold	28	(7,693,406)	(8,306,857)	(10,083,920)
Gross income		7,924,007	8,835,408	9,418,196
Operating income (expenses):				
Selling expenses	28	(4,719,029)	(4,822,974)	(5,029,870)
General and administrative expenses	28	(1,258,722)	(1,195,277)	(1,130,754)
Other income (expenses), net	29	(522,060)	434,283	(775,032)
		(6,499,811)	(5,583,968)	(6,935,656)
Operating income		1,424,196	3,251,440	2,482,540
Financial income (expenses):				
Financial income	30	750,450	862,708	714,547
Financial expenses	31	(1,156,485)	(1,115,524)	(997,294)
Foreign exchange variations, net	32	(4,845)	2,409	2,105
		(410,880)	(250,407)	(280,642)
Income before income and social contribution taxes		1,013,316	3,001,033	2,201,898
Income and social contribution taxes	33	(262,889)	(915,591)	(652,795)
Net income for the year		750,427	2,085,442	1,549,103
Earnings per share attributed to the Company' shareholders (in R\$ per share)				
Basic earnings per share	34	0.31	0.86	0.64

Diluted earnings per share	34	0.31	0.86	0.64
----------------------------	----	------	------	------

F-6

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31

(In thousands of *Reais*)

	2016	2015 Revised (Note 2(e))	2014 Revised (Note 2(e))
Net income for the year	750,427	2,085,442	1,549,103
Other components of comprehensive income			
Item not to be reclassified to income:			
Remeasurement of post-employment benefit obligations, net of taxes	(204)	(416)	290
Item to be reclassified to income subsequently:			
Cash flow hedge (Note 5)	(2,190)	-	-
Total comprehensive income for the year	748,033	2,085,026	1,549,393

The items included in the Statement of Comprehensive Income are recorded net of taxes.

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

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of *Reais*)

	Capital Stock	Capital reserves	Profit reserves Legal reserve	Reserve for expansion	Additional dividends proposed	Treasury shares	Equity valuation adjustments	Retained earnings	Total
Balances as at January 1 st 2014 (as originally reported)	9,839,770	1,217,640	438,634	2,614,230	485,722	(3,369)	2,013	-	14,594,640
Adjustments from prior years (Note 2(e))	-	-	-	(372,704)	-	-	-	-	(372,704)
Balances as at January 1 st 2014 - Revised (Note 2(e))	9,839,770	1,217,640	438,634	2,241,526	485,722	(3,369)	2,013	-	14,221,936
Total comprehensive income for the year									
Net income for the year	-	-	-	-	-	-	-	1,549,103	1,549,103
Remeasurement of post-employment benefit obligation	-	-	-	-	-	-	290	-	290
Total comprehensive income for the year	-	-	-	-	-	-	290	1,549,103	1,549,393
Total contributions from shareholders									

and distributions

to shareholders

Stock Options (Note 26)	-	5,687	-	-	-	-	-	-	5,687
Capital increase	26,528	-	-	-	-	-	-	-	26,528
Allocation of net income for the period:									
Legal reserve (Note 25)	-	-	77,322	-	-	-	-	(77,322)	-
Dividends proposed (Note 25)	-	-	-	-	-	-	-	(367,274)	(367,274)
Recording of tax benefit reserve (Note 25)	-	121,143	-	-	-	-	-	(121,143)	-
Recording of expansion reserve (Note 25)	-	-	-	983,364	-	-	-	(983,364)	-
					(485,722)				(485,722)
Dividends recorded directly in shareholders' equity	-	-	-	1,466	-	-	-	-	1,466
Total contributions from shareholders and distributions to shareholders	26,528	126,830	77,322	984,830	(485,722)	-	-	(1,549,103)	(819,315)
Balances as at December 31, 2014 and/or January 1 st , 2015 - Revised (Note 2(e))	9,866,298	1,344,470	515,956	3.226.356	-	(3,369)	2,303	-	14,952,014
Total comprehensive income for the year									

Table of Contents

Net income for the year	-	-	-	-	-	-	-	2,085,442	2,085,442
Remeasurement of post-employment benefit obligation	-	-	-	-	-	-	(416)	-	(416)
Total comprehensive income for the year	-	-	-	-	-	-	(416)	2,085,442	2,085,026
Total contributions from shareholders and distributions to shareholders									
Stock Options (Note 26)	-	4,504	-	-	-	-	-	-	4,504
Allocation of net income for the year:									
Legal reserve (Note 25)	-	-	103,557	-	-	-	-	(103,557)	-
Dividends proposed (Note 25)	-	-	-	-	-	-	-	(468,616)	(468,616)
Tax benefit reserve (Note 25)	-	93,123	-	-	-	-	-	(93,123)	-
Recording of expansion reserve (Note 25)	-	-	-	1,420,146	-	-	-	(1,420,146)	-
Dividends recorded directly in shareholder's equity	-	-	-	4,394	-	-	-	-	4,394
Total contributions from shareholders and distributions to shareholders	-	97,627	103,557	1,424,540	-	-	-	(2,085,442)	(459,718)
Balances as at December 31, 2015 - Revised (Note 2(e))	9,866,298	1,442,097	619,513	4,650,896	-	(3,369)	1,887	-	16,577,322

Total comprehensive income for the year									
Net income for the year	-	-	-	-	-	-	-	750,427	750,427
Remeasurement of post-employment benefit obligation	-	-	-	-	-	-	(204)	-	(204)
Cash flow hedge	-	-	-	-	-	-	(2,190)	-	(2.190)
Total comprehensive income for the year	-	-	-	-	-	-	(2,394)	750,427	748,033
Total contributions from shareholders and distributions to shareholders									
Stock Options (Note 26)	-	3,802	-	-	-	-	-	-	3.802
Allocation of net income for the year:									
Legal reserve (Note 25)	-	-	37,521	-	-	-	-	(37,521)	-
Dividends proposed (Note 25)	-	-	-	-	-	-	-	(148,664)	(148,664)
Tax benefit reserve (Note 25)	-	118,250	-	-	-	-	-	(118,250)	-
Recording of expansion reserve (Note 25)	-	-	-	445,992	-	-	-	(445,992)	-
Dividends recorded directly in shareholders' equity	-	-	-	7,020	-	-	-	-	7.020
Total contributions from shareholders and distributions to shareholders	-	122,052	37,521	453,012	-	-	-	(750,427)	(137.842)
Balances as at December 31, 2016	9,866,298	1,564,149	657,034	5,103,908	-	(3,369)	(507)	-	17,187,513

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

F-9

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOW

Years ended December 31

(In thousands of *Reais*)

	Note	2016	2015 Revised (Note 2(e))	2014 Revised (Note 2(e))
Operations				
Income before income tax and social contribution		1,013,316	3,001,033	2,201,898
Adjustments to reconcile income with net cash from operations:				
Depreciation and amortization		3,785,172	3,361,971	3,052,579
Gain on sale of property, plant and equipment (leaseback)	1b/29	(44,036)	(1,210,980)	-
Residual value of property and equipment, and intangible assets written-off		19,528	11,704	15,659
Interest from obligations arising from asset retirement obligation	24	1,146	3,961	7,915
Provision for administrative and legal proceedings	23	375,242	359,973	264,338
Monetary correction of judicial deposits and administrative and judicial proceedings		41,010	28,857	(6,211)
Monetary correction of dividends		-	-	10,957
Interest, monetary and exchange variations of borrowing and other financial adjustments		625,865	743,992	735,859
Lease interest payable	31	246,280	145,274	43,904
Lease interest receivable	30	(25,756)	(24,045)	(32,085)
Losses on doubtful accounts	28	266,442	230,357	248,576
Stock options	26	3,802	4,504	5,687
		6,308,011	6,656,601	6,549,076
Cash from operating activities				
Decrease (increase) in operating assets:				
Trade accounts receivable		(291,825)	535,736	(204,173)
Taxes and contributions recoverable		206,143	157,232	(375,939)
Inventory		(2,214)	122,313	32,796
Prepaid expenses		80,524	71,561	(33,591)
Judicial deposits		(128,256)	(70,491)	(232,952)
Other current assets		26,064	(75,204)	(33,279)
Increase (decrease) in operating liabilities:				
Payroll, profit sharing and related charges		12,906	(9,256)	38,074
Suppliers		(296,014)	(1,808,097)	19,521

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Tax, charges and contributions		(214,353)	(493,936)	(225,866)
Authorizations payable		199,163	(247,806)	1,294,640
Payment of legal and administrative proceedings	23	(413,209)	(429,261)	(256,497)
Deferred revenue		(337,806)	11,552	(18,703)
Other current liabilities		(156,886)	(142,760)	(112,783)
Net cash from operations		4,992,248	4,278,184	6,441,018
Cash from investment activities				
Investment activities				
Financial assets at fair value		119,461	(558,264)	(12,468)
Cash received from property and equipment sales	1.b	133,708	2,498,421	-
Additions to property and equipment, and intangible assets		(4,502,397)	(4,764,239)	(6,850,889)
Net cash used in investment activities		(4,249,228)	(2,824,082)	(6,863,357)
Cash from financing activities				
Increase in capital – share issue				
Financing activities		-	-	26,199
New borrowing		1,304,492	1,262,351	2,302,691

Table of Contents

Repayment of borrowing	(2,685,938)	(1,711,497)	(984,342)
Payment of finance leases	(178,818)	(82,092)	(17,586)
Derivative financial instruments	305,336	304,994	(123,375)
Dividends paid	(460,309)	(360,447)	(835,898)
Net Cash from (used in) financing activities	(1,715,237)	(586,691)	367,689
Increase (decrease) in cash and cash equivalents, net	(972,217)	867,411	(54,650)
Cash and cash equivalents at the beginning of the year (Note 4)	6,100,403	5,232,992	5,287,642
Cash and cash equivalents at the end of the year (Note 4)	5,128,186	6,100,403	5,232,992

Supplementing disclosure on consolidated cash flow

	2016	2015	2014
Interest paid	573,538	456,076	383,469
Income tax and social contribution paid	199,173	222,450	185,826
Additions to property, plant and equipment, and intangible assets – without cash effects	(137,199)	(1,244,803)	(3,287)
Increase in lease obligations – without cash effects	137,199	1,244,803	-

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

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

1. Operations

(a) Corporate Structure

TIM Participações S.A. (“TIM Participações” and/or the “Company”) is a publicly-held corporation based in the city of Rio de Janeiro, Rio de Janeiro State, 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 66.58% of the capital of TIM Participações as at December 31, 2016 (66.58% as at December 31, 2015). The main purpose of the Company and its subsidiaries (the “Group”) is to control companies providing telecommunications services, including personal mobile telecom services and others, in their licensed areas. The services provided by TIM Participações’ subsidiaries are regulated by the Agência Nacional de Telecomunicações (“ANATEL”).

The Company’s shares are traded on the Futures and Commodities Exchange - BM&F at São Paulo Stock Exchange - BOVESPA. Additionally, TIM Participações trades its Level II American Depositary Receipts (“ADRs”) on the New York Stock Exchange (“NYSE”) in the US. Accordingly, the Company is subject to the rules of the Brazilian Securities Commission (Comissão de Valores Mobiliários or “CVM”) and the US Securities and Exchange Commission (“SEC”).

TIM Participações S.A.’s direct subsidiaries

(a) TIM Celular S.A. (“TIM Celular”)

The Company holds 100% of the shares of TIM Celular. This subsidiary provides Fixed Telephone Services (“STFC”) - Domestic Long Distance and International Long Distance voice services, Personal Mobile Services (“SMP”) and Multimedia Communication Services (“SCM”) in all Brazilian states and in the Federal District.

(b)Intelig Telecomunicações Ltda. (“Intelig”)

The Company also holds 100% of the shares of Intelig. This subsidiary provides STFC – Local voice services and SCM services in all Brazilian states and in the Federal District (“DF”).

(b) Significant Transaction – Sale of Towers

TIM Celular entered into two Sales Agreements with American Tower do Brasil Cessão de Infraestruturas Ltda. (“ATC”) in November 2014 and January 2015 of up to 6,481 telecommunications towers then owned by TIM Celular, for approximately R\$3 billion, and a Master Lease Agreement (“MLA”) for part of the space on these towers for a period of 20 years from the date of transfer of each tower, under a sale and leaseback transaction, with for the payment of monthly rental amounts depending on the type of tower (greenfield or rooftop). The sales agreements determine the transference of the ownership of the towers in tranches to ATC, due to the need to meet certain conditions precedent.

This transaction will benefit the Company’s operating and financial capacity, allowing it to expand its investments and improve quality.

A total of five transfers occurred on April 29, 2015, September 30, 2015, December 16, 2015, June 9, 2016, and December 20, 2016. Until now, 5,819 towers (5,483 in 2015 and 336 in 2016), representing 89.8% of the total, were transferred, and a total of R\$2,498,421 was received in cash in 2015 and R\$133,708 in 2016.

The gain on the portion of the assets effectively sold, amounting to R\$44,036 and R\$1,210,980, was recognized in income for the years ended December 31, 2016 and 2015, respectively, net of

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

transaction costs, while the gain on the portion of the towers subject to sale and leaseback, amounting to R\$70,856 as at December 31, 2016 (R\$1,002,393 as at December 31, 2015), net of transaction costs, was deferred for the duration of the corresponding financial lease agreements (Note 22).

The discount rate used in the transaction was determined based on observable market transactions that the Company (lessee) would have to pay under a similar lease or borrowing arrangement. The amounts calculated and discount rates applied to each tranche are disclosed in Note 15.

The effects on the accounts were as follows:

	Dec/2016	Dec/2015
Number of towers sold	336	5,483
Sales amount	133,708	2,498,421
Asset residual value and transaction costs	(32,014)	(487,795)
Gain on the transaction	101,694	2,010,626
Effect on sales revenue:		
Income from disposal of assets	42,207	1,253,618
Asset residual value and transaction costs	(10,401)	(247,572)
Net impact of decommissioning costs reversal	12,230	204,934
Effect on pre-tax income (heading "other operating income (expenses), net")	44,036	1,210,980
Income and Social contribution taxes	(12,565)	(372,140)
Net effect on income for the year	31,471	838,840
Deferred revenue	70,856	1,002,393
Property, plant and equipment leased back	92,835	1,244,803

Finance lease obligation ("leaseback")	92,835	1,244,803
Effect on net debit (i)	42,207	1,253,618

(i) Represents the total amount of the sale less the finance lease obligation.

Additionally, financial leases for newly built towers in the amount of R\$15,000 was recorded in the third and fourth quarters of 2016, as provided for in the agreements entered into with American Tower on November 21, 2014.

2. Basis for preparation and disclosure of the financial statements

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The significant accounting policies applied to the preparation of the financial statements are described below and/or presented in their relevant notes. These policies were consistently applied to the years/periods presented, unless otherwise indicated.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(a) General preparation and disclosure criteria

The financial statements were prepared using the historical cost as the base value, and financial assets and liabilities (including derivative financial instruments) measured at fair value.

Assets and liabilities are reported according to their degree of liquidity and collectability. They are reported as current when they are likely to be realized or settled over the next 12 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 of which are totally classified as non-current.

(b) Functional currency and presentation currency

The presentation currency for the financial statements is the *Brazilian Real* (“R\$”), which is also the functional currency for all the companies consolidated in this 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 issued on the date of the balance sheet by the Central Bank of Brazil. Exchange gains and losses linked to these items are recorded in the statement of income.

(c) Segment information

Operating segments are the components of the entity which develop business activities from which revenue can be obtained and in relation to which expenses are incurred. Their operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM), in order to make decisions on the allocation of resources and to assess the performance of each segment. For a segment to exist, it must have separate financial information available.

The Company's CODM, 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 optimize 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 matters are made on a consolidated basis. The aim is to maximize the consolidated result obtained by exploiting the SMP, STFC and SCM licenses.

(d) Consolidation procedures

Subsidiaries are all entities in which the Group holds control. The Group controls an entity when it is liable or has rights to variable returns from its involvement with the subsidiaries 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 discontinued from the date that the Group loses the control over that entity.

The purchase accounting method is used for recording the acquisition of subsidiaries by the Group. The acquisition cost is measured based on the fair value of assets offered, equity instruments (e.g. shares) issued and liabilities incurred or assumed by the acquirer as at the date

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

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 the 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 the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income as other income, after a review of the concepts and calculations applied.

Transactions between Group companies, as well as balances and unrealized gains and losses relating to these transactions, are eliminated. The accounting policies of subsidiaries have been adjusted to ensure consistency with the accounting policies adopted by TIM Participações. The date of the financial statements used in the consolidation is the same for all Group companies.

(e) Correction ("revision") of previous years' balances

During the year 2016, the Company identified errors related to prior years in relation to the revenue recognition for prepaid phone credit sold by third parties ("trading partners"). Even though the pre-paid revenue is recognized based on the consumption of the credits by the clients, during the reconciliation process an undue adjustment was identified in relation to the difference in the credit balances held by the trading partners and the credit effectively activated in the pre-paid operational system for use by end customers. Pursuant to the guidance of Staff Accounting Bulletin ("SAB") No. 99, "Materiality", the Company evaluated the materiality of these amounts quantitatively and qualitatively and has concluded that the amounts described above were not material to its annual prior periods financial statements or trends of financial results, which the net impact on the income statements for the years ended December 31, 2015 and 2014 was R\$14 million and R\$ 3 million, respectively, and R\$373 million on retained earnings at January 1st, 2014. However, because of the significance of the cumulative out-of-period adjustment to the 2016 fiscal year, the financial statements for years prior to 2016 fiscal year have been revised in accordance with SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements".

These adjustments have not impacted the Company's cash and cash equivalents position, nor have they changed the cash flow financial statements, nor impacted compliance with the provisions of the covenants relating to the Financing of the Company. Consequently, these errors in prior periods resulted in adjustments to the following accounting items in the financial statements:

- 1 – Taxes and contributions recoverable;
- 2 – Trading partners;
- 3 – Deferred revenue, net of commission to trading partners;
- 4 – Equity;
- 5 – Revenue;
- 6 – Commissions to trading partners;
- 7 – Other retentions;
- 8 – Interests on taxes; and
- 9 – Income and social contribution taxes on adjustments.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	Balance Sheet 01/01/14 (Reported)	Adjustments	Balance Sheet 01/01/14 (Revised)
ASSETS			
Current (1)	10,740,804	6,548	10,747,352
Non-current (1)	17,190,918	134,362	17,325,280
Total assets	27,931,722	140,910	28,072,632
LIABILITIES			
Current (2 and 3)	8,048,103	513,614	8,561,717
Non-current	5,288,979	-	5,288,979
Shareholders' equity (4)	14,594,640	(372,704)	14,221,936
Total liabilities and shareholders' equity	27,931,722	140,910	28,072,632

	Balance Sheet 12/31/14 (Reported)	Adjustments	Balance Sheet 12/31/14 (Revised)
ASSETS			
Current (1)	11,174,415	6,535	11,180,950
Non-current (1)	21,168,729	139,513	21,308,242
Total assets	32,343,144	146,048	32,489,192
LIABILITIES			

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Current (2 and 3)	9,123,256	516,068	9,639,324
Non-current	7,897,854	-	7,897,854
Shareholders' equity (4)	15,322,034	(370,020)	14,952,014
Total liabilities and shareholders' equity	32,343,144	146,048	32,489,192

F-16

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	Statement of income 12/31/14 (Reported)	Adjustments	Statement of income in 12/31/14 (Revised)
Revenue (5)	19,498,165	3,951	19,502,116
Cost of services rendered and goods sold	(10,083,920)	-	(10,083,920)
Gross income	9,414,245	3,951	9,418,196
Operating income (expenses) (4/6 and 7)	(6,928,556)	(7,100)	(6,935,656)
Operating income	2,485,689	(3,149)	2,482,540
Financial income (expenses) (8)	(292,772)	12,130	(280,642)
Income before income and social contribution taxes	2,192,917	8,981	2,201,898
Income and social contribution taxes (9)	(646,498)	(6,297)	(652,795)
Net income for the year	1,546,419	2,684	1,549,103
Basic earnings per share	0.64	0.00	0.64
Diluted earnings per share	0.64	0.00	0.64

	Balance Sheet 12/31/15 (Reported)	Adjustments	Balance Sheet 12/31/15 (Revised)
ASSETS			

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Current (1)	12,033,273	6,973	12,040,246
Non-current (1)	23,370,379	145,763	23,516,142
Total assets	35,403,652	152,736	35,556,388

LIABILITIES

Current (2 and 3)	8,658,406	508,458	9,166,864
Non-current	9,812,202	-	9,812,202
Shareholders' equity (4)	16,933,044	(355,722)	16,577,322
Total liabilities and shareholders' equity	35,403,652	152,736	35,556,388

F-17

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	Statement of income 12/31/15 (Reported)	Adjustments	Statement of income in 12/31/15 (Revised)
Revenue (5)	17,138,851	3,414	17,142,265
Cost of services rendered and goods sold	(8,306,857)	-	(8,306,857)
Gross income	8,831,994	3,414	8,835,408
Operating income (expenses) (4/6 and 7)	(5,587,777)	3,809	(5,583,968)
Operating income	3,244,217	7,223	3,251,440
Financial income (expenses) (8)	(264,378)	13,971	(250,407)
Income before income and social contribution taxes	2,979,839	21,194	3,001,033
Income and social contribution taxes (9)	(908,694)	(6,897)	(915,591)
Net income for the year	2,071,145	14,297	2,085,442
Basic earnings per share	0.85	0.01	0.86
Diluted earnings per share	0.85	0.01	0.86

(f) Approval of the financial statements

These financial statements were approved by the Company's Board of Directors on April 5, 2017.

(g) New standards, changes and interpretations of standards not yet in force

The following new standards were issued by the IASB, but are not in force for the year 2016. The early adoption of these standards, although encouraged by the IASB, has not been implemented by management.

“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: measured at fair value and measured at amortized cost. The determination is made upon 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 standard comes into force on January 1st, 2018.

Although the Group has not yet completed its assessment of the impact of IFRS 9, its adoption is not expected to have a material impact on the financial statements. The new provisions regarding the classification of assets, depending on the existing business model for these assets, may give rise to changes in measurement and presentation, and the provisions on accounting for impairment losses on financial assets may in certain cases lead to advance recognition of these losses.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", effective from January 1st, 2018. The application of this standard may have a material effect on the presentation of financial statements, depending on the business model adopted.

The new provisions address the following issues:

- In the case of contracts with multiple performance obligations (in example, mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component supplied in advance (handset), requiring the prior recognition of revenue. This generates the recognition of what is known as a contractual asset - an amount receivable resulting from the contract with a customer that has not yet been recognized in the Company's equity position.
- At the same time, this leads to higher revenue from the sale of goods and products and reduces the revenue from the provision of services.
- Future capitalization and allocation of expenses related to sales commission (cost of acquisition of customers) over the estimated period of customer retention.
- Increase in total assets upon initial adoption due to the capitalization of the contractual assets and costs of acquisition of customers.
- Deferral, for example later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of additional products.

IFRS
15

Although a reliable estimate of quantitative effects is not possible until the completion of the implementation process of the new standard, we estimate that the main impact for the Company will be in relation to new customer retention (loyalty) contracts that: (1) include services together with the provision of subsidized products; and (2) discounts on products that should be allocated proportionally to revenue from products and services.

In January 2016, IASB issued IFRS 16 "Leases", effective from January 1, 2019. The application of this standard may generate a material effect on the presentation of the results of the Group's operations, depending on the business model applied.

In particular:

- Whereas there was previously a requirement to disclose the obligations for the payment of expenses related to operating leasing operations in the notes to the financial statements, from the implementation of the new rule the rights and obligations resulting from the lease transactions should be recognized as rights-of-use and financial leases in the Balance Sheet.

IFRS

- 16
- The Group predicts an increase in total assets upon initial adoption on account of the increase in lease liabilities, as well as a similar increase in non-current assets due to the right-of-use assets to be capitalized.
 - The increase in lease liabilities will lead to a corresponding increase in net debt.
 - Going forward, depreciation charges and interest expenses will be recognized in the income statement instead of operating lease expenses. This will give rise to a significant improvement in EBITDA and to a similar increase in net cash from operating activities reported in the statement of cash flow.
 - For the Group as lessor, the new lease definitions may also impact the number of items to be accounted for as leases.

The effects will be evaluated as part of an IFRS 16 implementation project, and a reliable estimate at that time of the quantitative effects is not possible until the project has been completed.

There are no other present IFRS standards or IFRIC interpretations not yet in force that could have a significant impact on the financial statements of the Group.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

3. Estimates and critical judgment in the application of the Company's accounting policies

Accounting estimates and judgments are continuously reassessed. They are based on the Company's historical experience and other factors, such as expectations of future events, considering the circumstances as at the date of the financial statements.

By definition, the accounting estimates resulting from such assumptions rarely equal the actual outcomes. The estimates and assumptions that carry a significant risk with a probability of causing relevant adjustments to the book values of assets and liabilities for the next fiscal years are shown below:

(a) Impairment losses of non-financial assets

Losses arising from impairment take place when the book value of an asset or cash generating unit exceeds the respective recoverable value, which is considered as the fair value less costs to sell, or the value in use, whichever is greater. The calculation of fair value less costs to sell is based on information available from sale transactions involving similar assets, or on market prices less additional costs that would be incurred to dispose of those assets. The value in use is based on the discounted cash flow model. Cash flow is derived from the Company's business plan. Since this is an ongoing business, from the fifth projection year a perpetual nominal growth rate for cash flow was estimated (note 14).

Any reorganization activities to which the Company has not committed itself on the financial statements disclosure date or any material future investments aimed at improving the asset base of the cash generating unit being tested are excluded for the purposes of the impairment testing.

The recoverable value is sensitive to the discount rates used in the discounted cash flow method, as well as to the expected future cash receivables and the growth rates of revenue and expenses used for extrapolation purposes. Adverse economic conditions may lead to significant changes in these assumptions.

The main non-financial assets valued this way included goodwill based on future profitability recorded by the Company (note 14), and the need for impairment adjustments was not identified as at December 31, 2016.

(b) Income tax and social contribution (current and deferred)

Income tax and social contribution (current and deferred) are calculated in accordance with interpretations of the legislation currently in force. This process normally includes complex estimates to define the taxable income and differences. 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 and can be offset. The measurement of the recoverability of deferred income tax and social contribution losses carried forward and of temporary differences takes into account estimates of taxable income (Note 10).

(c) Provision for legal and administrative proceedings

Legal and administrative proceedings are analyzed by the Company's Management and by internal and external legal advisors. The Company's reviews take into account factors such as the hierarchy of laws, the available case law, recent court decisions, their relevance in the legal order, as well as payment history. Such reviews involve the use of Management's judgment (Note 23).

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(d) Fair value of derivatives and other financial instruments

Financial instruments presented at fair value in the balance sheet are measured using evaluation techniques that take into account observable data or observable data derived from the market (Note 38).

(e) Unbilled revenue

Considering that some billing cut-off dates fall on intermediate dates within the months, at the end of each month there is revenue already earned by the Company but not effectively billed to the customers. This unbilled revenue is recorded based on estimates which take into account historical data regarding usage and number of days since the last billing date, among other factors.

(f) Sale and leaseback

Sale and leaseback transactions involve the Group selling an asset and immediately acquiring the right to use the same asset by entering into a lease agreement with the buyer. The accounting treatment of sale and leaseback transactions depends on the substance of each transaction (by applying the principles of lease classification).

For financial sale and leaseback transactions, the total gain is deferred and amortized over the lease term. For operational sale and leaseback, generally the assets are sold at fair value, and consequently the gain or loss on the sale is immediately recognized in the income statement.

At the beginning of the lease term, the Company recognizes finance leases as assets and liabilities on its balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease

payments, each determined at the beginning of the lease.

The discount rate used in a sale and leaseback transaction is determined based on observable market transactions where the lessee would have to pay an amount on a similar lease contract or loan. As mentioned in Note 1.b, the discount rates applied by Management in the transactions carried out during the year were significant to the calculation of the portion of the gain recorded through profit and loss, as well as the portion of the deferred gain, which is being amortized over the lease term.

4. Cash and cash equivalents

These are financial assets classified as loans and receivables, accounted for at amortized cost using the effective interest rate method. The Company's Management determines the classification of its financial assets upon initial recognition.

	2016	2015
Cash and cash equivalents	92,860	113,244
Short term bank deposits:		
CDB/Repurchases	5,035,326	5,987,159
	5,128,186	6,100,403

Bank Deposit Certificates ("CDBs") and Repurchases are nominative securities issued by banks

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

and sold to the public as a means of raising funds. Such securities can be traded during the contracted period, at any time, without any significant loss of value, and are used to repay the short term obligations of the Company.

The annual average return on the Company's investments regarding CBDs and Repurchases, including those not classified as cash and cash equivalents, is 101.10% (101.30% as at 31 December, 2015) of the Interbank Deposit Certificate - CDI rate.

5. Marketable securities

	2016	2015
Foreign exchange fund	479,953	599,414
Current portion	(479,953)	(599,414)

Shares in a non-exclusive foreign exchange fund were purchased during 2015. This foreign exchange fund has daily liquidity in order to follow the variations of the US Dollar, and is basically formed of highly liquid public securities. The investment is intended to reduce foreign exchange risk on repayments to suppliers in foreign currency. The classification as securities occurs due to significant changes in the interest rate in the event of early redemption.

During the period ended December 31, 2016, approximately 2% of the foreign exchange fund shares were designated as cash flow hedges.

6. Trade accounts receivable

These are financial assets classified as borrowing and receivables, which refer to accounts receivable from users of telecommunications services, from network use (interconnections) and from sales of handsets and accessories. Accounts receivable are recorded at the price charged at the time of the transaction. The balances of accounts receivable also include services provided and not billed (“unbilled”) 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 rate method less the allowance for doubtful accounts (“impairment”).

Losses on doubtful accounts were recognized as deduction from the accounts receivable based on the profile of the subscriber portfolio, the overdue aging of accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by the Company’s management.

The fair value of accounts receivable equals the book value recorded at December 31, 2016 and December 31, 2015. A portion of the accounts receivable, relating to the pre and post-paid business, is used to secure the total amount of BNDES borrowing (Note 19).

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2016	2015
Billed services	1,175,091	995,879
Unbilled services	653,333	667,886
Network use	527,179	448,064
Sale of goods	956,056	1,120,449
Other accounts receivable	2,062	2,053
	3,313,721	3,234,331
Allowance for doubtful accounts	(370,452)	(351,381)
	2,943,269	2,882,950
Current portion	(2,919,177)	(2,858,089)
Non-current portion	24,092	24,861

Changes in allowances for doubtful accounts were as follow:

	2016	2015
Opening balance	351,381	373,577
Additions	266,442	230,357
Write-off	(247,371)	(252,553)
Closing balance	370,452	351,381

The aging of the accounts receivable is as follows:

	2016	2015
Current	2,378,345	2,153,088

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Past due for up to 30 days	231,024	189,186
Past due for up to 60 days	107,584	57,822
Past due for up to 90 days	135,164	406,850
Past due for more than 90 days	461,604	427,385
	3,313,721	3,234,331

F-23

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**7. Inventory**

Inventory is stated at average acquisition cost. A loss 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.

	2016	2015
Mobile handsets and tablets	132,857	123,664
Accessories and pre-paid cards	18,115	19,762
TIM chips	13,114	12,170
	164,086	155,596
Losses on adjustment to realizable amount	(20,152)	(13,876)
	143,934	141,720

8. Indirect taxes and contributions recoverable

	2016	2015
		Revised
		(Note 2(e))
ICMS	1,465,088	1,708,059
Other	35,909	34,241
	1,500,997	1,742,300
Current portion	(633,854)	(924,624)
Non-current portion	867,143	817,676

The Value Added Tax or “*ICMS - Imposto sobre Circulação de Mercadorias e Serviços*” recoverable basically refers to (i) credits on the acquisition of property, plant and equipment directly related to the provision of telecommunication services (credits divided into 48 months), and (ii) ICMS tax substitution amounts from goods acquired for resale, mainly mobile handsets, chips, tablets and modems sold by TIM.

9. Direct taxes and contributions recoverable

	2016	2015 Revised (Note 2(e))
Income tax (IR) and Social contribution on income (CSL) (i)	431,005	185,804
PIS/COFINS (ii)	52,879	233,326
Other	51,820	81,113
	535,704	500,243
Current portion	(334,806)	(329,722)
Non-current portion	200,898	170,521

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

- (i) The amounts relating to income tax and social contribution on income refer to the anticipation of IR/CS during the year (the Company changed its option from quarterly to monthly payments – Note 21).

The Employees' Profit Participation Program (“*Programa de Integração Social – PIS*”) and Tax for Social Security Financing (“*Contribuição para o Financiamento da Seguridade Social - COFINS*”) amounts recoverable refer to:

- (ii) (i) credits arising from a legal proceeding with a final favorable decision, regarding the unconstitutionality of the broadening of the calculation base for these contributions under Law 9718/98; (ii) credits for the purchase of inventory of goods for resale, basically handsets, tablets and modems; and (iii) credits calculated on rights and services used as inputs, in accordance with the applicable legislation.

10. Deferred taxes

Deferred taxes on income and social contribution are recognized on: (1) accumulated carryforward losses on income tax and social contribution; and (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) enacted 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 tax and social contribution 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 Statutory Audit Committee and approved by other management bodies, indicates that is likely the future realization of those tax credits.

The balances of deferred income tax and social contribution credits and debits are shown in the balance sheet at their net amounts, when there is both a legal right and the intention to offset them at the time when current taxes are ascertained, usually in relation to the same legal entity and the same taxation authority. Thus, deferred tax credits and debits belonging to different entities are in general shown separately, not at their net amounts.

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

As at December 31, 2016 and 2015, the prevailing tax rates were 25% for income tax and 9% for social contribution. The tax incentives shown in Note 33 are also being considered in the deferred taxes.

The amounts recorded are as follow:

Assets (liabilities)	2016	2015
Deferred taxes – Liabilities		
Deemed cost – Intelig	(108,358)	(120,730)
	(108,358)	(120,730)
Deferred taxes – Assets		
Carryforward losses – Income tax	935,146	1,034,243
Carryforward losses - Social contribution	350,271	385,946
Temporary differences:		
Provision for legal and administrative proceedings	162,622	141,246
Allowance for doubtful accounts	132,779	122,299
Adjustment to net present value – 3G license	13,008	14,950
Deferred tax on IFRS adjustments:		
Acquisition of stocks from minority shareholders	53,569	53,569
Business combination – Intelig acquisition	71,405	71,405
Others	8,200	11,731
Lease of LT Amazonas Infrastructure	16,144	11,022
Profit sharing	27,520	16,594
Taxes with suspended enforceability	12,872	12,872
Amortized goodwill – TIM Fiber	(328,152)	(264,639)
Derivative financial instruments	(46,053)	(336,621)
Capitalized interests on 4G authorization	(173,408)	(84,751)
Other	31,471	56,975
	1,267,394	1,246,841
Deferred taxes asset not recognized due to lack of expected future taxable income (Intelig and TIM Participações)	(1,225,704)	(1,232,315)
	41,690	14,526

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**TIM Celular**

The subsidiary TIM Celular has set up deferred income tax and social contribution assets on its total tax losses, social contribution losses and temporary differences, based on the history of profitability and the projected future taxable earnings. Based on these projections, the subsidiary expects to recover the credits as follows:

	Deferred income tax and social contribution
2017	120,878
2018	127,534
Carryforward losses	248,412
Temporary differences	(206,722)
Total credits recoverable	41,690

The estimates regarding the recovery of tax assets were calculated taking into account the financial and business assumptions available at the year end of 2016.

The subsidiary TIM Celular used credits related to tax carry forward losses and the negative basis of social contribution in the amount of R\$127,216 for the year ended December 31, 2016 (R\$206,083 as at December 31, 2015).

Deferred taxes assets not recognized

Considering that TIM Participações S.A. does not carry out activities that may generate income tax and social contribution taxable income, no deferred taxes asset have been recognized on carry forward losses income tax and social contribution tax losses and temporary differences, totaling R\$99,241 at December 31, 2016 (R\$93,215 at December 31, 2015), was recognized.

In the case of the subsidiary Intelig, considering that it has not presented a taxable income history or estimates of sufficient future taxable income, no deferred taxes asset have been recognized on carry forward losses (income tax and social contribution) and temporary differences, in the amount of R\$1,126,463 as at December 31, 2016 (R\$1,139,100 as at December 31, 2015), of which R\$993,087 refers to tax losses and the negative base of social contribution, and R\$133,376 to temporary differences.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**11. Prepaid expenses**

	2016	2015
Advertising not released (*)	85,905	162,145
Rentals and insurance	58,366	46,936
Network swap (**)	28,932	37,674
Other	11,563	18,535
	184,766	265,290
Current portion	(130,392)	(210,056)
Non-current portion	54,374	55,234

(*) Represent early payments of expenses from the advertising of TIM brand products and services, which were recognized in income for the period of advertising broadcasting.

(**) On April 1st, 2010, the subsidiary Intelig and GVT (currently Telefónica's Group) entered into an onerous contract and a reciprocal agreement of assignment of fiber optic infrastructure (network swap), in order to expand their correspondent operation areas. Given the economic nature of the transaction, the amount was recognized in (current and non-current) prepaid expenses and deferred revenue (current and non-current). Both amounts are being appropriated to income in the same proportion over a period of ten years.

12. Judicial deposits

These are recorded at their historical cost and updated according to the legislation in force:

2016	2015
------	------

Civil	471,922	361,689
Labor	468,009	420,112
Tax	291,745	268,825
Regulatory	111	109
Other (*)	62,338	55,306
Non-current portion	1,294,125	1,106,041

(*) Refer to financial investments related to certain judicial proceedings.

Civil

These are court deposits to guarantee the execution of civil proceedings where the Company is challenging the amounts involved. Most of these proceedings refer to lawsuits filed by customers, involving consumer rights issues, among others.

There are some proceedings involving different issues, challenging the amounts set by ANATEL for leaving certain frequency bands, to allow the implementation of 4G technology, after TIM Celular won the auction. In this case, the updated court deposit amounts to R\$59,546 (R\$53,559 as of December 31, 2015).

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Labor

These represent amounts deposited in court as guarantees of execution and for the filing of appropriate appeals, the relevant matters or amounts of which are still being discussed. The total balance is distributed among the several claims filed by the Company's employees and third party service providers.

Tax

The Company and its subsidiaries have placed court deposits for tax issues to back various current court proceedings. These deposits refer mainly to the following matters:

2% increase in the ICMS rate for the Fund for the Eradication of Poverty ("FECP") in the State of Bahia on prepaid (i) telephone services provided by the Company. The current value of these deposits is R\$87,093 (R\$80,205 as at December 31, 2015).

Use of credit for the purchase of electricity used directly by the companies for production purposes. The court is (ii) tending towards to provide a favorable decision to the taxpayers in such matter. The current value of these deposits is R\$67,697 (R\$64,968 as at December 31, 2015).

Liability for Provisional Contribution on Financial Activities ("Contribuição Provisória sobre Movimentações Financeiras - CPMF") on the capitalization of loans; recognition of the right not to pay contributions allegedly due (iii) on a simple change of ownership of current accounts as a result of a takeover. The current value of these deposits is R\$33,489 (R\$31,450 as at December 31, 2015).

(iv) Constitutionality of collection of the Operations Monitoring Charge (“TFF”) by several municipal authorities. The current value of these deposits is R\$13,542 (R\$11,450 as at December 31, 2015).

(v) Tax authorities has not approved the offsetting of federal debts against credits of Withholding Tax (“IRRF”), arguing that the credits were insufficient, as well as the judicial deposit (escrow account) was not sufficient to allow the Company to obtain a Tax Clearance Certificate. The current value of these deposits is R\$10,036 (R\$9,340 as at December 31, 2015).

(vi) Liability for Services Tax (Imposto sobre Serviços - ISS”) on import services and outsourced services; alleged failure to pay for land clearance and Base Transceiver Station (“BTS”) maintenance services, and liability for ISS on the Company’s services and on Co-billing services and software licensing (Blackberry). The Company is seeking for its right to take advantage of the spontaneous complaint in order to remove the confiscatory fines for late payment. The current value of these deposits is R\$6,453 (R\$5,524 as at December 31, 2015).

(vii) Ancillary services provided for in ICMS Agreement 69/98 related to ICMS levied on communication services, including on amounts charged for access, adhesion, activation, habilitation, availability, subscription and use of services, among others. The current value of these deposits is R\$5,745 (R\$5,479 as at December 31, 2015).

(viii) Volunteered reports of tax debits and consequent cancellation of fines for late payment. The current value of these deposits is R\$4,222 (R\$4,001 as at December 31, 2015).

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Judicial deposit made by Intelig related to the unconstitutionality and illegality of charging the contribution for the Fund for Universal Access to Telecommunications Services (“Fundo de Universalização dos Serviços de Telecomunicação - FUST”). Plea for the recognition of the right not to pay FUST, and not to include in its (ix) calculation base revenue from interconnection and Industrial Exploration of Dedicated Line (“Exploração Industrial de Linha Dedicada - EILD”), as well as for the right not to be charged retroactively for differences arising from failure to comply with ANATEL ruling 7/2005. The current value of these deposits is R\$48,873 (R\$43,323 as at December 31, 2015).

13. Property, Plant and Equipment

Property, plant and equipment are stated at acquisition and/or construction cost, less accumulated depreciation and impairment losses if applicable. Depreciation is calculated on a straight line basis over terms that take into account the expected useful lives of the assets and their residual values.

The estimated costs of dismantling towers and equipment on rented properties are capitalized and depreciated over the estimated useful lives 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 decommissioning costs". Interest incurred on the updating of the provision is classified as a financial expense.

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 income/ (expenses)” in the statement of income.

On January 1, 2009 Intelig, upon its initial adoption of IFRS, used deemed cost to measure its property, plant and equipment assets. After this, property, plant and equipment were recorded at their acquisition and/or construction historical cost. Both (deemed cost and historical cost) are deductible from the accumulated depreciation and from the impairment losses, if applicable.

(a) Changes in property, plant and equipment

	2015	Additions	Disposals	Transfers	2016
Cost of property, plant and equipment, gross					
Commutation/transmission equipment	16,164,178	-	(57,363)	1,125,439	17,232,254
Fiber optic cables	563,995	-	(19)	36,528	600,504
Free leased handsets	1,952,079	7	(26,089)	145,337	2,071,334
Infrastructure	4,933,743	107,828	(127,470)	354,942	5,269,043
Informatics assets	1,501,480	-	(5,482)	54,616	1,550,614
General use assets	650,580	-	(24,163)	49,265	675,682
Land	40,794	-	-	-	40,794
Construction in progress	1,119,800	2,433,983	31,950	(1,766,127)	1,819,606
Total property, plant and equipment, gross	26,926,649	2,541,818	(208,636)	-	29,259,831

F-29

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Accumulated depreciation

Commutation/transmission equipment	(10,653,118)	(1,366,859)	50,769	-	(11,969,208)
Fiber optic cables	(200,123)	(42,589)	3	-	(242,709)
Free leased handsets	(1,783,940)	(136,262)	14,974	-	(1,905,228)
Infrastructure	(1,884,692)	(416,085)	75,845	-	(2,224,932)
Informatics assets	(1,296,837)	(81,267)	5,441	-	(1,372,663)
General use assets	(440,591)	(40,944)	20,974	-	(460,561)
Total accumulated depreciation	(16,259,301)	(2,084,006)	168,006	-	(18,175,301)

Property, plant and equipment, net

Commutation/transmission equipment	5,511,060	(1,366,859)	(6,594)	1,125,439	5,263,046
Fiber optic cables	363,872	(42,589)	(16)	36,528	357,795
Free leased handsets	168,139	(136,255)	(11,115)	145,337	166,106
Infrastructure	3,049,051	(308,257)	(51,625)	354,942	3,044,111
Informatics assets	204,643	(81,267)	(41)	54,616	177,951
General use assets	209,989	(40,944)	(3,189)	49,265	215,121
Land	40,794	-	-	-	40,794
Construction in progress	1,119,800	2,433,983	31,950	(1,766,127)	1,819,606
Total property, plant and equipment, net	10,667,348	457,812	(40,630)	-	11,084,530

	2014	Additions	Disposals	Transfer	2015
<u>Cost of property, plant and equipment, gross</u>					
Commutation/transmission equipment	14,985,191	12,230	(730,640)	1,897,397	16,164,178
Fiber optic cables	517,558	-	(720)	47,157	563,995
Free leased handsets	1,800,938	-	(20,853)	171,994	1,952,079
Infrastructure	4,323,507	1,244,803	(1,187,529)	552,962	4,933,743
Informatics assets	1,468,586	2	(21,194)	54,086	1,501,480
General use assets	610,081	-	(7,204)	47,703	650,580
Land	40,451	-	-	343	40,794

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Construction in progress	1,110,868	2,804,968	(24,394)	(2,771,642)	1,119,800
Total property, plant and equipment, gross	24,857,180	4,062,003	(1,992,534)	-	26,926,649
<u>Accumulated depreciation</u>					
Commutation/transmission equipment	(10,140,317)	(1,196,356)	683,561	(6)	(10,653,118)
Fiber optic cables	(161,975)	(38,218)	70	-	(200,123)
Free leased handsets	(1,673,641)	(118,291)	7,992	-	(1,783,940)
Infrastructure	(2,327,097)	(367,840)	810,248	(3)	(1,884,692)
Informatics assets	(1,234,678)	(83,354)	21,188	7	(1,296,837)
General use assets	(404,543)	(43,044)	6,994	2	(440,591)
Total accumulated depreciation	(15,942,251)	(1,847,103)	1,530,053	-	(16,259,301)
Property, plant and equipment, net					
Commutation/transmission equipment	4,844,874	(1,184,126)	(47,079)	1,897,391	5,511,060
Fiber optic cables	355,583	(38,218)	(650)	47,157	363,872
Free leased handsets	127,297	(118,291)	(12,861)	171,994	168,139
Infrastructure	1,996,410	876,963	(377,281)	552,959	3,049,051
Informatics assets	233,908	(83,352)	(6)	54,093	204,643
General use assets	205,538	(43,044)	(210)	47,705	209,989
Land	40,451	-	-	343	40,794
Construction in progress	1,110,868	2,804,968	(24,394)	(2,771,642)	1,119,800
Total property, plant and equipment, net	8,914,929	2,214,900	(462,481)	-	10,667,348

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Consolidated figures for the year include the total effect, amounting to R\$29,114 (2015 – R\$451,084) of disposals relating to the sale of towers, and additions in the amount of R\$92,835 (2015 – R\$1,244,803) for assets under sale and leaseback (Note 1.b).

“Construction in progress” corresponds to the cost of intangible works during their construction and installation period, until the date when they start operating, when they will be transferred to their relevant asset accounts.

(b) Depreciation rates

	Annual rate %
Commutation/transmission equipment	8 to 14.29
Fiber optic cables	4 to 10
Free-leased handsets	14.28 to 50
Infrastructure	4 to 20
Informatics assets	20
General use assets	5 to 10

In 2016, pursuant to IAS 16, the Company and its subsidiaries assessed the useful life estimates for their property, plant and equipment, concluding that there were no significant changes to the circumstances on which the estimates were based that would justify changes to the useful lives currently in use. To determine the useful lives 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 asset is subjected during its use.

14. Intangible assets

Intangible assets are measured at historical cost less accumulated amortization and impairment losses (if applicable), and reflect: (i) the purchase of authorizations 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; (iii) goodwill on the purchase of companies; and (iv) deferred commission costs.

Amortization charges are calculated based on the straight line method over the estimated useful life of the assets contracted and over the terms of the licenses. The useful life estimates of intangible assets are reviewed regularly.

Any borrowing costs on general funds, which means not identified is, but used for obtaining qualifying assets, which are assets that necessarily require a significant time to make ready for use, are capitalized based on weighted average of the Company's borrowing rates, as part of the cost of the asset when the asset is likely to bring future economic benefits for the entity, and such costs can be accurately measured. These costs are amortized throughout the estimated useful lives of the assets.

The amounts of the SMP authorizations and radio frequency right to use, as well as software, goodwill and other items, were recorded as follow:

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**(a) Changes in intangibles**

	2015	Additions	Transfers	Disposals	Capitalized Interests	2016
Cost of intangible assets, gross						
Software rights to use	13,033,544	29,372	1,551,252	(1,693)	-	14,612,475
Authorizations	5,189,022	152,201	57,800	-	-	5,399,023
Goodwill	1,527,219	-	-	-	-	1,527,219
Cost of deferred commission to dealers	28,991	174,901	-	-	-	203,892
List of clients	95,200	-	-	-	-	95,200
Right to use infrastructure of LT Amazonas	198,202	-	-	-	-	198,202
Other assets	167,125	-	31,073	-	-	198,198
Intangible assets under development	3,416,633	1,734,493	(1,640,125)	-	283,581	3,794,582
Total intangible assets, gross	23,655,936	2,090,967	-	(1,693)	283,581	26,028,791
Accumulated amortization						
Software rights to use	(9,591,782)	(1,290,650)	-	1,693	-	(10,880,739)
Authorizations	(3,962,749)	(273,082)	-	-	-	(4,235,831)
Cost of deferred commission to dealers	(1,688)	(100,223)	-	-	-	(101,911)
List of clients	(70,000)	(16,800)	-	-	-	(86,800)
Right to use infrastructure LT Amazonas	(22,711)	(9,910)	-	-	-	(32,621)
Other assets	(47,813)	(10,501)	-	-	-	(58,314)
Total Accumulated Amortization	(13,696,743)	(1,701,166)	-	1,693	-	(15,396,216)
Intangible assets, net						
Software rights to use (c)	3,441,762	(1,261,278)	1,551,252	-	-	3,731,736
Authorizations	1,226,273	(120,881)	57,800	-	-	1,163,192
Goodwill (d)	1,527,219	-	-	-	-	1,527,219

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Cost of deferred commission to dealers (h)	27,303	74,678	-	-	-	101,981
List of clients (e)	25,200	(16,800)	-	-	-	8,400
Right to use infrastructure of LT Amazonas (f)	175,491	(9,910)	-	-	-	165,581
Other assets (h)	119,312	(10,501)	31,073	-	-	139,884
Intangible assets under development (g)	3,416,633	1,734,493	(1,640,125)	-	283,581	3,794,582
Total Intangible Assets, net	9,959,193	389,801	-	-	283,581	10,632,575

F-32

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2014	Additions	Transfers	Disposals	Capitalized Interests	2015
Cost of intangible assets, gross						
Software rights to use	11,461,386	-	1,588,206	(16,048)	-	13,033,544
Authorizations	5,078,310	81,914	28,798	-	-	5,189,022
Goodwill	1,527,219	-	-	-	-	1,527,219
List of clients	95,200	-	-	-	-	95,200
Right to use infrastructure of LT Amazonas	198,202	-	-	-	-	198,202
Other assets	164,182	28,991	2,943	-	-	196,116
Intangible assets under development	2,995,751	1,770,712	(1,619,947)	-	270,117	3,416,633
Total intangible assets, gross	21,520,250	1,881,617	-	(16,048)	270,117	23,655,936
Accumulated amortization						
Software rights to use	(8,477,702)	(1,132,698)	2,877	15,741	-	(9,591,782)
Authorizations	(3,614,957)	(344,915)	(2,877)	-	-	(3,962,749)
List of clients	(53,200)	(16,800)	-	-	-	(70,000)
Right to use infrastructure of LT Amazonas	(12,802)	(9,909)	-	-	-	(22,711)
Other assets	(38,955)	(10,546)	-	-	-	(49,501)
Total Accumulated Amortization	(12,197,616)	(1,514,868)	-	15,741	-	(13,696,743)
Intangible assets, net						
Software rights to use (c)	2,983,684	(1,132,698)	1,591,083	(307)	-	3,441,762
Authorizations	1,463,353	(263,001)	25,921	-	-	1,226,273
Goodwill (d)	1,527,219	-	-	-	-	1,527,219
List of clients (e)	42,000	(16,800)	-	-	-	25,200
Right to use infrastructure of LT Amazonas (f)	185,400	(9,909)	-	-	-	175,491
Other assets (h)	125,227	18,445	2,943	-	-	146,615
Intangible assets under development (g)	2,995,751	1,770,712	(1,619,947)	-	270,117	3,416,633
Total Intangible Assets, net	9,322,634	366,749	-	(307)	270,117	9,959,193

Intangibles under development represent the cost of projects in progress related to the acquisition of 4G licenses and/or other intangible assets in the period of their construction and installation, up to the moment when they enter into operation, whereupon they will be transferred to the corresponding accounts for these assets.

(B) Amortization rates

	Annual rate %
Software rights to use	20
Authorizations	5 to 50
Cost of deferred commission to dealers	50
List of clients	18
Right to use infrastructure of LT Amazonas	5
Other assets	7 to 10

(c) Software rights to use

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 all of the capitalization criteria are met.

Directly attributable costs, which are capitalized as part of the software product, include costs for employees directly allocated to its development.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(d) Goodwill from previous years

The Company and its subsidiaries have the following goodwill based on expectations of future profitability as at December 31, 2016 and 2015:

Goodwill on acquisition of Intelig - The goodwill arising from the acquisition of Intelig in December 2009 in the amount of R\$210,015 is represented by/based on the subsidiary's expected profitability. Goodwill recoverability is tested annually through an impairment test.

Goodwill from acquisitions of TIM Fiber SP and TIM Fiber RJ - 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 S.A. (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.

TIM Fiber SP Ltda. and TIM Fiber RJ. S.A. were merged into TIM Celular S.A. on August 29, 2012.

The subsidiary TIM Celular recorded the goodwill allocation related to the purchase of the companies TIM Fiber SP and TIM Fiber RJ, at the end of the purchase price allocation process, at the amount of R\$1,159,648.

Goodwill from the acquisition of minority interests of TIM Sul and TIM Nordeste - In 2005, the Company acquired all the shares of the minority shareholders of TIM Sul and TIM Nordeste, in exchange for shares issued by TIM Participações, converting these companies in full subsidiaries. The goodwill resulting from this transaction amounted to R\$157,556.

As required by accounting standards, the Company annually tests the goodwill on business combinations involving TIM Group companies for impairment. The main methods and assumptions used by Management in the impairment tests of the goodwill are as follows:

The Company has revised the structure of the tests performed in previous years, with a change to the cash generating unit (“CGU”), defining “Tim Participações” as the CGU for impairment test. Last year the test took into account: (i) the residential broadband business and mobile business as a single cash generating unit (CGU), for testing the goodwill recorded in TIM Celular on the purchase of TIM Fiber RJ and TIM Fiber SP; and (ii) the Intelig business as a cash generating unit for testing the goodwill recorded in TIM Participações on the purchase of Intelig.

As a result, the Company has reassessed the cash generating units for the goodwill registered, and took the following assumptions into account for changing the CGUs:

At the time of purchase of these companies, the key reason for the purchases was to support and increase the competitiveness of the mobile business, to get into the residential and corporate broadband business, and to access the wholesale market, either directly or through swaps with other market operators in areas where TIM was not yet (i) operating. In previous years, the Company believed that the cash generated by the Fiber and Intelig businesses could be regarded as independent of the other lines of business, and so the goodwill impairment test took into account only the cash flow directly related to these CGUs. We think this approach was extremely prudent as it does not consider the increase in competitiveness and the synergies with the mobile business;

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Currently, this approach does not take into account the relevance of the continuing investment in the Company's network in order to provide all pertinent mobile services for its customers. In recent years there has been a migration of usage of (and revenue from) voice services to data services, both internationally and, in particular, in Brazil. The growing use of data has become a major challenge in terms of infrastructure, since mobile sites now demand high capacity to provide an efficient data service. The main solution adopted by TIM was to introduce the (ii) Fiber to the Site ("FTTS") approach, connecting the sites using a fiber optics network and installing small cells connected to this network, especially in Rio de Janeiro and São Paulo, in order to reduce traffic congestion at mobile sites, increase the transmission capacity and improve the quality of service. This led to a huge increase in the use of the TIM Fiber and Intelig backbone for mobile services. This sharing of the network by mobile and fixed services makes it impossible to keep cash disbursements for CAPEX and OPEX separate between these two segments;

The behavior of telephone services customers is changing to a data-centered approach, where customers are "always connected", using either the operator's network or public or private Wi-Fi, which is possible as handsets (iii) become ever more advanced. Thus, the telecom companies are offering services and data packages to obtain income from the constant usage of data. Introducing offers as packages has made it impossible to separate cash revenue from the mobile segment and the fixed segment.

(iv) From an organizational standpoint, TIM Fiber is totally integrated into the mobile business.

Consequently, the Company's management understands that the smallest cash generating unit for testing the impairment of goodwill on the acquisition of companies, as described earlier, is the consolidated business, and therefore the assessment will be made at level of TIM Participações. This new approach is in line with the market trend towards integrating the mobile and landline segments.

The change in CGU as a result of a different strategy was consolidated in 2016. Thus, for this year, Tim Participações was the cash generating unit identified for the impairment testing of goodwill, in the amount of R\$1,527,219. The impairment testing of said goodwill used this CGU and the value in use method, having also considered the calculations using the methods applied to prior years. The principal assumptions used in this method are:

Percentages of growth in the number of clients, in line with the Company's business plan, prepared for 3 plus 2 years projected;

Progressive decrease in the base of clients of prepaid services, and, in accordance with the historical trend and the industrial plan, this is being offset with greater penetration postpaid services, in line with the Company's business plan and prepared for 3 plus 2 years, when the cash flow will stabilize and the growth can be estimated based on perpetuity;

Operation and maintenance costs estimates considering change in the base of clients, occasional scale gains and inflation effects. The inflation rate expected by the Company for operational expenses (4.50% p.a. on average) is in line with the estimates prepared by representative market institutions;

Considering that it is a continuous business, from the fifth year, it was estimated a perpetuity of nominal growth of cash flow of 2.50% p.a.;

The discount rate for estimated cash flow was 11.03% p.a.

The results of impairment testing carried out as at December 31, 2016, considering both the models for previous years and the new model showed no evidence of a need to recognize any impairment losses.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(e) 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 based on their fair value as at the acquisition date and are being amortized in accordance with their estimated useful life as at the same date.

(f) Infrastructure use rights of LT Amazonas

The subsidiary TIM Celular signed agreements for the right to use infrastructure with companies that operate electric power transmission lines in Northern Brazil. Such agreements fall within the scope of IFRIC 4 and are classified as financial leases.

Additionally, TIM Celular entered into network infrastructure sharing contracts with Telefônica Brasil S.A. also in the Northern Region. Under these contracts, both operators optimize resources and reduce their operational costs (note 15).

(g) Auction and payment of 4G License 700 MHz

On September 30, 2014, TIM Celular purchased Lot 2 in the Auction of the 700 MHz band for an amount of R\$1,739 million. In December 2014, the Company paid R\$1,678 million. The outstanding balance of R\$61 million was recorded as a debt, as provided for in the call notice.

TIM Celular is challenging the remaining balance with Anatel, which is subject to interest rates of 1% p.m. and monetary adjustment at the IGP-DI (General Price Index). These amounts are capitalized by the Company. The impact on the balance for the year ended December 31, 2016 was R\$8,586 (R\$7,731 as at December 31, 2015) of interest and R\$3,659 (R\$7,859 as at December 31, 2015) of monetary adjustments.

Additionally, as determined on the call notice, the Company has assumed additional costs regarding to the clean-up of the frequency band purchased. The nominal amount due from the Company regarding the cleaning of the 700 MHZ frequency of the lot purchased is R\$904 million. The Company also has an additional cost of R\$295 million related to the portion that has not been purchased at the auction and that was subsequently split by Anatel among the companies that won the auction, with a total of R\$1,199 million to be paid related to these costs.

In order to perform the activities for cleaning the spectrum, in March 2015, TIM, together with the other companies that won the auction, constituted a Redistribution and Digitalization Management Entity for TV and RTV Channels, named "EAD". From 2015 to 2018, TIM and the other companies that won the auction, will disburse amounts, according to the schedule provided for in the public notice, to afford, by means of the EAD, with the costs related to this cleaning activities. As the amount payable by TIM of R\$1,199 million relates to a long term obligation, it was reduced by R\$47 million through adjustment to present value ("AVP"). Monthly AVP interest is appropriated, as well as monetary adjustments based on the IGP-DI index. For the year ended December 31, 2016, the impact generated by the appropriation of AVP interest amounted to R\$14,239 (R\$25,793 as at December 31, 2015), while the impact from indexation was R\$43,619 (R\$98,307 as at December 31, 2015).

As at April 9, 2015, the first payment in the amount of R\$370,379 was made to EAD.

The license mentioned above relates to the concept of a qualifying asset. Consequently, the finance charges over funds raised without a specific destination, used for the purpose of obtaining a qualifying asset, are capitalized at the average rate of 13.40% p.a. in connection with the borrowing and financing valid for the year. The amount capitalized in the year ended

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

December 31, 2016 was R\$260,756 (R\$236,592 as at December 31, 2015).

(h) Cost of deferred commission to dealers

In 2015 a new offer was launched to corporate clients where contracts provide a minimum contract period of 24 months with a penalty clause in case of early cancellation. This kind of contract allows amounts disbursed on commission to dealers for the acquisition of these clients to be capitalized as an intangible asset with a finite useful life. The capitalized costs of these contracts will be amortized over the contract term, net of impairment adjustments.

15. Financial leases

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. Interests related to the lease are taken to income as financial expenses over the contractual term.

The subsidiary TIM Celular entered into tower lease agreements, as a lessee, arising from a sale and financial leaseback operation (Note 1.b) involving the sale of an asset and the concomitant leasing of the same asset by the purchaser to the seller.

The subsidiary TIM Celular recognized a liability corresponding to the present value of the compulsory minimum installments of the agreement.

Leases in which the Company, as lessor, substantially transfers the risks and benefits of the ownership to the other party (lessee) are classified as financial leases. The values of these leases are transferred from the intangible assets of the Company and are recognized as a receivable leases at the lower of the fair value of the leased item and the present value of the receipts provided for in the agreement. Interest related to the lease is taken to income as financial income over the contractual term.

Asset leases are financial assets registered as borrowing and receivables.

Assets

	2016	2015
LT Amazonas	204,762	199,935
	204,762	199,935
Current portion	(2,818)	(1,969)
Non-current portion	201,944	197,966
-		

LT Amazonas

As a result of the agreement entered into with LT Amazonas, the subsidiary TIM Celular entered into network infrastructure sharing agreements with Telefônica Brasil S.A. Under these agreements, TIM Celular and Telefônica Brasil S.A. share investments in the Northern region of Brazil. The subsidiary has receivables against Telefônica Brasil S.A. that have to be paid on a monthly basis for a period of 20 years. These amounts are annually restated by the IPC-A

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(Customer Index Price). The consolidated nominal amount of future installments receivable by TIM Celular is R\$392,873.

The table below includes the schedule of cash receipts under the agreement currently in force. The amounts represent the cash receipts estimated in the signed agreements and are stated at their nominal amounts. It must be mentioned that these balances differ from those recorded in the accounting books, where the amounts are recorded at present value:

	Nominal amount	Present value
Up to December 2017	25,381	15,850
January 2018 to December 2021	90,252	44,167
January 2022 onwards	277,240	144,745
	392,873	204,762

The present value of installments receivable is R\$204,762 (R\$199,935 in 2015), of which R\$185,558 of principal and R\$19,204 of interest accrued until December 31, 2016. These amounts were estimated as at the date of execution of agreements entered into with the transmission companies, projecting future cash receipts discounted at 12.56% per year.

Liabilities

	2016	2015
LT Amazonas	351,798	340,582
Sale of Towers (<i>leaseback</i>)	1,411,055	1,277,924
Other	39,385	-
	1,802,238	1,618,506
Current portion	(96,604)	(38,592)
Non-current portion	1,705,634	1,579,914

i) LT Amazonas

The subsidiary TIM Celular executed agreements for the right to use infrastructure owned by companies that operate electrical power transmission lines in Northern Brazil (“LT Amazonas”). The terms of these agreements are for 20 years, counted from the date on which the infrastructure is ready to operate. The contracts provide for monthly payments to the electrical power transmission companies, annually restated at the IPC-A.

The table below presents the future payment schedule for the agreements in force. These amounts represent the estimated disbursements under the agreements executed with the distributors, and are shown at their nominal amounts. These balances differ from those shown in the books since, in the case of the latter, the amounts are shown at present value:

	Nominal amount	Present value
Up to December 2017	51,131	31,663
January 2018 to December 2021	171,426	76,170
January 2022 onwards	526,113	243,965
	748,670	351,798

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The consolidated nominal value of future installments due by TIM Celular is R\$748,670. Its present value is R\$351,798, composed by R\$313,001 of principal and R\$38,797 of interest as at December 31, 2016, estimated on the date the agreements were signed with the transmission companies by projecting future payments and discounting these at 14.44% per year. Additionally, the amount of the right to use the infrastructure 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 electrical power transmission companies. These donations are already included in the contracts signed by the parties.

ii) Sale and Leaseback of Towers

Under the tower lease agreements (“MLA”), TIM Celular agreed to lease part of the infrastructure space on the same towers for a period of 20 years to be counted from the date of transfer of each tower. The agreements provide for monthly lease amounts based on the type of tower (greenfield or rooftop), restated annually by the IGP-M index.

The table below includes the schedule of payments under the agreement in force regarding the MLA. The amounts represent the disbursements estimated in the agreement signed with ATC and are stated at their nominal amounts. It must be mentioned that these balances differ from those recorded in the accounting books, where amounts are recorded at present value:

	Nominal amount	Present value
Up to December 2017	227,445	194,882
January 2018 to December 2021	616,107	390,035
January 2022 onwards	2,092,720	826,138
	2,936,272	1,411,055

The consolidated nominal amount of the sum of future installments payable by TIM Celular is R\$2.936.272. Their present value is R\$1.411.055, of which R\$1.337.638 of principal and R\$73.417 of interest as at December 31, 2016. The present value was estimated by projecting future payments discounted at rates of 14.39%, 17.08%, 17.00%, 13.70% and 12.96% for the amounts disbursed in April, September and December 2015, and June and December 2016, respectively.

16. Regulatory credits recoverable

These refer to Fistel credit amounts arising from the reduction of the client base, which may be offset against future changes in the base or used to reduce a future obligation.

17. Suppliers

Supplier accounts payable 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 rate method. Given the short maturity terms of these obligations, in practical terms they are usually recognized at the invoice value.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2016	2015 Revised (Note 2(e))
Local currency		
Suppliers of materials and services (a)	3,108,497	3,474,351
Interconnection (b)	181,580	76,670
Roaming (c)	3,349	1,206
Co-billing (d)	85,554	71,548
	3,378,980	3,623,775
Foreign currency		
Suppliers of materials and services (a)	67,511	87,528
Roaming (c)	14,590	23,252
	82,101	110,780
Current portion	3,461,081	3,734,555

(a) Represents the amount to be paid to suppliers for the acquisition of materials and the provision of services relating to tangible and intangible assets or for consumption in operations, maintenance and management, as provided for in the agreements between the parties.

(b) 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 networks of other operators.

(c) This refers to calls made by customers outside their registration area, who are therefore considered visitors in other operator networks.

(d) This refers to calls made by customers who choose another long-distance operator.

18. Authorizations payable

At December 31, 2016, the Company and its subsidiaries have the following commitments to ANATEL:

Licenses payables	2016	2015
700 MHz frequency band cleaning, Net of Present Value (ii)	976,246	918,388
Updated ANATEL Debt (ii)	89,695	77,450
Guarantee insurance on authorizations	8,652	15,985
Renewal of authorizations (i)	254,515	146,149
Authorizations payable (iii)	57,524	-
	1,386,632	1,157,972
Current portion	(486,494)	(467,687)
Non-current portion	900,138	690,285

F-40

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

In order to provide SMP services, the subsidiary TIM Celular obtained radio frequency licenses for a fixed period (as described in the table below) and renewable for a further fifteen (15) years. The extension of the right of use (i) includes the payment of an amount equal to 2% of the revenue recorded in the regions covered by the Authorization that ends each biannual period. As at December 31, 2016, TIM Celular had accounts past due related to the renewal of Authorizations in the amount of R\$254,515 (R\$146,149 as at December 31, 2015).

At December 5, 2014, the subsidiary TIM Celular signed the Instrument of Authorization regarding the 700 MHz band (extract published in D.O.U. on December 8, 2014). The subsidiary paid an amount equivalent to R\$1,678 million, recording the remaining balance of R\$61 million as a financial debt, according to the payment method (ii) provided for in the call notice. With no bids for some lots in the Call Notice for the 700 MHz band, TIM Celular, along with other bidders, had to bear a proportion of the costs regarding these lots, as a result of the redistribution and digitalization of TV and RTV channels and the solutions for interference problems in the radio communication systems, being entitled to a discount on the final amount to be paid for authorization to use the 700 MHz band.

However, the methodology used by ANATEL to calculate this amount was different from that included in the Call Notice, and so TIM Celular filed an administrative appeal, which was heard and denied in December 2014 (as were the appeals of the other Winning Bidders). On March 31, 2015, TIM Celular filed a lawsuit questioning a surplus charge of R\$61 million (R\$90 million as at December 31, 2016), which is still pending trial (Note 14.g).

As mentioned above, the Company assumed an additional commitment to cleaning the 700 MHz radio frequency band, performing the redistribution and digitalization of TV and RTV channels, and reducing negative interference, upon the constitution of a Digitalization Managing Entity (“EAD”), with a total commitment assumed by TIM Celular amounting to R\$1,199 million to be paid in four (4) installments adjusted by IGP-DI, of which R\$370 million (30%) was paid on July 9, 2015, to this entity (Note 13.g).

On February 15, 2016, the subsidiary TIM Celular signed an Addendum to the Terms of Authorization for the 700 MHz band (extracts published in the Federal Gazette on March 8, 2016), changing the date of payment of the second installment of 30% to the EAD, previously payable on January 31, 2016. The agency will thus receive from TIM Celular, on January 31, 2017, an installment of 60% (30% + 30%, for 2016 and 2017). The remaining 10% is payable

on January 31, 2018, adjusted according to the IGP-DI.

On March 4, 2015, ANATEL: (i) accepted the request for the withdrawal of the application to extend the period of radio frequency use for Lot 208 (part of AR 92) of Bid No. 004/2012/PVCP/SPV-ANATEL; (ii) granted the application to extend the authorization for radio frequency use for Lot 222 (part of AR 31) of said bid; and (iii) granted the application for the extension of the period of authorization for radio frequency use in Bands D and E. On July 22, 2015, an Authorization Act extended the authorization for the use of the above radio frequencies.

On December 17, 2015, TIM Celular was ranked the best bidder for the acquisition of two Type B lots (E-30 - AR41, Curitiba and metropolitan region and E-68 - AR81, Recife and metropolitan region) relating to Bidding (iii) Process 002/2015-SOR /SPR/ANATEL, at an offer price of R\$57.5 million. The result was approved by the Steering Committee of ANATEL on June 1, 2016, and the Licensing Agreements were entered into on July 26, 2016.

F-41

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The Authorizations held on a primary basis by TIM Celular as of December 31, 2016, as well as their maturity dates, are detailed below:

Authorization Instruments	<u>Maturity date</u>		Additional frequencies	1,900 MHz and 2,100 MHz (3G)	2,500 MHz V1 Band (4G)	2,500 MHz (P** Band (4G))	700 MHz (4G)
	800 MHz, 900 MHz and 450 MHz 1,800 MHz						
Amapá, Roraima, Pará, Amazonas and Maranhão	-	March, 2031*	April, 2023	April, 2023	October, 2027	Part of AR92 (PA) – February, 2024*	December, 2029
Rio de Janeiro and Espírito Santo	October, 2027	March, 2031*	ES - April, 2023	April, 2023	October, 2027	Part of AR21 (RJ) – February, 2024*	December, 2029
Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás, Rio Grande do Sul (except the municipality of Pelotas and region) and the municipalities of Londrina and Tamarana, in Paraná	PR - October, 2027	March, 2031*	April, 2023	April, 2023	October, 2027	Part of AR61 (DF) – February, 2024*	December, 2029
São Paulo	-	March, 2031*	Countryside - April, 2023	April, 2023	October, 2027	-	December, 2029
Paraná (except the municipalities of Londrina and Tamarana)	October, 2027	September, 2022*	April, 2023	April, 2023	October, 2027	AR 41, except Curitiba and Metropolitan	December, 2029

						Region - February, 2024*	
Santa Catarina	October, 2027	September, 2023*	April, 2023	April, 2023	October, 2027	-	December, 2029
Municipality and region of Pelotas, in the State of Rio Grande do Sul	-	April, 2024*	-	April, 2023	October, 2027	-	December, 2029
Pernambuco	-	May, 2024*	-	April, 2023	October, 2027	Part of AR81-July, 2031	December, 2029
Ceará	-	November, 2023*	-	April, 2023	October, 2027	-	December, 2029
Paraíba	-	December, 2023*	-	April, 2023	October, 2027	-	December, 2029
Rio Grande do Norte	-	December, 2023*	-	April, 2023	October, 2027	-	December, 2029
Alagoas	-	December, 2023*	-	April, 2023	October, 2027	-	December, 2029
Piauí	-	March, 2024*	-	April, 2023	October, 2027	-	December, 2029
Minas Gerais (except the municipalities - of the PGO sector 3 for 3G the radio frequencies and other)	-	April, 2028*	April, 2023	April, 2023	October, 2027	Part of AR31 - February, 2030*	December, 2029
Bahia and Sergipe	-	August, 2027*	-	April, 2023	October, 2027	-	December, 2029

*Agreements already renewed for 15 years, therefore TIM is not entitled to a further renewal period.

** Only additional or complementary areas in particular States.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**19. Borrowing and financing**

These are recorded as financial liabilities measured at amortized cost, being represented by non-derivative financial liabilities that are not usually traded before maturity.

Initially, these are recognized at fair value, being subsequently measured based on the effective interest rate method. The appropriation of financial expenses based on the effective interest rate method is recorded in income, under financial expenses.

Description	Currency	Charges	Maturity	2016	2015
BNDES (1)	URTJLP	TJLP to TJLP + 3.62% p.a.	Jul/17 to Jul/22	2,546,627	2,528,140
BNDES (1)	UMIPCA	UMIPCA + 2.62% p.a.	Jul/17	36,552	68,628
BNDES (1)	UM143	SELIC + 2.52% p.a.	Jul/22	2,068,629	1,475,426
BNDES (PSI) (1)	R\$	2.50% to 4.50% p.a.	Jul/18 to Jan/21	444,847	563,465
BNB (2)	R\$	10.00% p.a.	Jan/16	-	931
Banco BNP Paribas (3)	USD	Libor 6M + 2.53% p.a.	Dec/17	78,065	187,038
Banco Europeu de Investimento (BEI) (2)	USD	Libor 6M + 0.941% to 1.32% p.a.	Aug/19 a Feb/20	622,980	1,859,839
Bank of America (Res. 4131) (4)	USD	Libor 3M + 1.35% p.a.	Sep/16	-	468,114
Bank of America (Res. 4131) (4)	USD	Libor 3M + 2.00% p.a.	Sep/18	324,860	-
KFW (3)	USD	Libor 6M+ 1.35% p.a.	Apr/19	182,046	304,924
KFW Finnvera (3)	USD	Libor 6M+ 0.75% p.a.	Jan/24	121,038	-
Cisco Capital (4)	USD	1.80% to 2.50% p.a.	Sep/18 to Dec/20	294,138	469,932
Total				6,719,782	7,926,437
Current portion				(1,145,225)	(2,326,187)
Non-current portion				5,574,557	5,600,250

Guarantees:

- (1)Guaranteed by the Company and collateral of some receivables of TIM Celular
- (2)Bank escrow and Company as guarantor
- (3)Guaranteed by the Company
- (4)No guarantee

The parent company TIM Participações S.A. does not have borrowing and financing as at December 31, 2016.

The foreign currency loan granted by Banco BNP Paribas, and the financing arranged by TIM Celular with BNDES, were raised for the purpose of expanding the mobile phone network. They include covenants that require certain financial ratios to be attained, calculated semi-annually. The subsidiary TIM Celular has complied with these financial ratios.

In March 2016, the Company prepaid the first tranche of the agreement signed in 2008 with European Investment Bank, totaling R\$520 million. In June 2016, the Company also prepaid the second and third tranches of the same agreement, for a total amount of R\$513 million. The original maturities of these tranches were in September and December 2016 and June 2017, respectively. The purpose of the early settlement was to manage the level of indebtedness and the Company's cash efficiently.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Additionally, in June 2016 the Company partially renewed an existing loan granted by Bank of America through the prepayment of the total existing debt, including its respective swaps, with a final result of R\$283 million, and the contracting of a new transaction in the amount of R\$338 million with final maturity in September 2018.

Credit Facilities

Type	Currency	Date of Opening	Term	Total amount	Remaining balance	Amount used as at December 31, 2016
BNDES (1)	URTJLP	Dec/13	Dec/16	2,635,600	998,338	1,637,262
BNDES (1)	UM143	Dec/13	Dec/16	2,636,400	963,713	1,672,687
BNDES (PSI) (1)	R\$	Dec/13	Dec/16	428,000	-	428,000
BNDES (2)	R\$	Dec/15	Dec/17	60,995	60,995	-
BNDES (2)	TJLP	Dec/15	Dec/18	2,940	2,940	-
Total R\$						3,737,949
KFW Finnvera (3)	USD	Dec/15	Jun/18	150,000	102,000	45,000

Purpose:

- (1) Financing of investments in network and information technology for the years 2014, 2015 and 2016.
- (2) Financing of TIM's Innovation Projects for the years 2016, 2017 and 2018.

(3) Financing of purchases of imported equipment and services for the years 2015, 2016 and 2017. The amount of US\$45 million was equivalent to R\$161,568 on the date of payment.

The Investment Sustainability Program (“PSI”) financing lines, obtained from BNDES, relate to specific programs of this institution and have interest rates lower than those available on ordinary BNDES operations. The balance at December 31, 2016, corresponding to the adjustment of the subsidy granted by the BNDES for all the PSI lines, is approximately R\$118 million. This amount was recorded in “Deferred Revenue” under “Government Subsidies” (Note 22) line and deferred for the useful life of the asset being financed and appropriated to income in “Subsidy income” (Note 29).

The subsidiary TIM Celular has swap transactions to fully protect itself against any devaluation of the Brazilian currency against the US Dollar in its borrowing and financing transactions. Nevertheless, this is not classified as hedge accounting.

The long term portions of borrowing and financing at December 31, 2016 mature as follow:

	Consolidated
2018	1,656,826
2019	1,600,638
2020	1,084,332
2021	764,139
2022	450,506
2023	9,020
2024	9,096
	5,574,557

Fair value of the borrowing

In Brazil there is no consolidated long term debt market with the same characteristics as the BNDES facilities. In addition to the returns on long term debt, the institutions take into account

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

the social benefits of each project for which financing is granted. For the purpose of fair value analysis, given the absence of a similar market and the requirement that the projects advance governmental interests, the fair value of the borrowing is usually taken to be that shown in the accounting records.

The amounts of PSI credit lines are recorded at their fair value at the withdrawal date, calculated considering the CDI rate on the withdrawal date.

Further transactions with extremely specific features are the loans obtained from BNP and KFW Finnvera. The former transaction is secured by SACE, an Italian insurance company, and the latter by Finnvera, a Finnish agency, both of which operate as development institutions. Given the features of these transactions, we believe that their fair values are equal to those shown on the Company's balance sheet.

Regarding the funds raised with Bank of America, Cisco Capital and KFW, current market conditions do not indicate the existence of any factor that might lead to fair values for these transactions different to those shown in the accounting records.

After applying evaluation criteria that take 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\$5 million less than the accounting balance.

20. Indirect taxes, charges and contributions payable

	2016	2015
ICMS	381,659	419,547
ANATEL taxes and fees	19,537	21,354
ISS	45,325	43,109
Other	6,721	17,861
	453,242	501,871
Current portion	(453,130)	(501,768)
Non-current portion	112	103

21. Direct taxes, charges and contributions payable

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.

Brazilian tax legislation allows companies to opt for quarterly or monthly payments of income tax and social contribution. In 2015, the Company and its subsidiaries paid income tax and social contribution quarterly. From 2016 this option has changed and the companies began to make monthly payment of income tax and social contribution.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2016	2015
Income tax and social contribution	507,915	338,351
PIS/COFINS	59,811	63,658
Other (*)	54,840	55,022
	622,566	457,031
Current portion	(363,726)	(213,880)
Non-current portion	258,840	243,151

(*) Refers basically to the subsidiary TIM Celular joining, in 2009, the REFIS program, a federal fiscal program that permits companies to pay debts due on federal taxes (Employees' Profit Participation Program - PIS, Tax for Social Security Financing - COFINS, Income Tax - IR and Social Contribution on Income - CSL) in installments, with final maturity on 10/31/2024.

22. Deferred revenue

	2016	2015
		Revised
		(Note 2(e))
Prepaid services to be provided (1)	716,650	958,872
Government grants (2)	117,758	145,892
Network swap (3)	28,932	37,674
Anticipated receipts	18,554	25,877
Deferred revenue from sale of towers (4)	991,750	973,613
	1,873,644	2,141,928
Current portion	(812,340)	(1,043,239)

Non-current portion	1,061,304	1,098,689
---------------------	-----------	-----------

(1) This refers to top-ups of voice and data credit not yet used by customers, involving pre-paid system services, which are appropriated to income when customers actually use these services.

(2) Refers to the release of funds under the credit facility from the BNDES Investment Sustainability Program (“BNDES PSI”). The total sum of the subsidies granted by BNDES through December 31, 2016 was R\$202,954. This amount is being amortized over the useful life of the asset being financed and appropriated to the “Other income (expenses), net” group (Note 29).

(3) Refers mainly to the transfer of onerous contracts and reciprocal infrastructure of fiber optics (Note 11).

(4) Refers to amounts to be amortized over the lease term of towers leaseback (Note 1.b).

23. Provision for legal and administrative proceedings

The Company and its subsidiaries are parties to legal and administrative proceedings in the civil, labor, tax and regulatory spheres which arise in the normal course of their business.

The provision is set up at an amount deemed sufficient and adequate to cover losses and risks considered probable, based on an analysis by the Company’s legal consultants and by Management. Situations where losses are considered probable or possible are subject to

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

disclosure at their adjusted amounts, while those where losses are considered remote are not disclosed.

The updated provision set up for legal and administrative proceedings is constituted as follows:

	2016	2015
Civil (a)	141,988	92,820
Labor (b)	90,789	69,312
Tax (c)	216,423	224,858
Regulatory (d)	29,282	28,621
	478,482	415,611

The changes in the provision for legal and administrative proceedings can be summarized as follows:

	2015	Additions, net of reversals	Payments	Monetary adjustment	2016
Civil (a)	92,820	357,081	(384,468)	76,555	141,988
Labor (b)	69,312	18,600	(18,523)	21,400	90,789
Tax (c)	224,858	(1,731)	(6,856)	152	216,423
Regulatory (d)	28,621	1,292	(3,362)	2,731	29,282
	415,611	375,242	(413,209)	100,838	478,482

(a) Civil processes

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. The main cases are summarized as follows:

a.1. Consumer lawsuits

The subsidiaries are parties to lawsuits relating to claims that have been filed by consumers at the legal and administrative levels. These claims, which amount to R\$105,112 (R\$51,962 as of December 31, 2015) refer basically to alleged wrong collections, contract cancellation, service quality, deficiencies and failures in equipment delivery, and unjustified inclusion in credit protection services.

a.2. Procon and Public Prosecutor's Office

TIM is a party to court and administrative lawsuits filed by the Public Prosecutor's Office and Procon (Consumer Protection Agency) arising from consumer complaints that include: (i) alleged failure in the provision of network services; (ii) challenges on the quality of client assistance; (iii) alleged violation of SAC Decree; (iv) alleged violation of agreements; (v) alleged false advertising; and (vi) discussion about the charging of loyalty fines in cases of theft of handsets. The amounts involved total R\$4,705 (R\$3,324 as at December 31, 2015).

a.3. Former trade partners

TIM is a defendant in lawsuits filed by former trading partners that claim, among others, amounts

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

arising from alleged non-compliance with agreements. The amounts involved total R\$8,661 (R\$18,496 as at December 31, 2015).

a.4. Others

TIM is a defendant in other non-consumer lawsuits filed by different agents to challenge, among others: (i) renewal of lease agreements; (ii) share subscription; (iii) indemnities; (iv) alleged non-compliance with agreements; and (v) collection suits. The amounts involved total R\$20,120 (R\$15,346 as at December 31, 2015).

a.5. Social, environmental and infrastructure

The subsidiaries are parties to lawsuits involving different agents challenging several licensing aspects, such as environmental licensing and structure licensing (installation/operation). The amounts involved total R\$3,390 (R\$3,692 as at December 31, 2015).

(b)

Labor claims

The main outstanding labor claims are summarized below:

Claims filed by former employees, in relation to matters such as salary differences, wage parity, payments of variable compensation/commission, additional legal payments, overtime and other provisions 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 1,074 labor claims at December 31, 2016 (1,148 as at December 31, 2015) filed against the Company and its subsidiaries, most relate to claims that involve former employees of service providers. The provision for these cases amounts to R\$81,876 (R\$60,095 as at December 31, 2015). A significant portion of this provision relates to the organizational restructuring processes, especially the closure of the Client Relationship Centers (call centers), as well as processes relating to the internal sites of TIM, which resulted in the termination of staff. At December 31, 2016, the provision for these cases amounts to R\$10,742 (R\$7,651 as at December 31, 2015).

(c) *Tax processes*

	2016	2015
Federal taxes	57,393	52,576
State taxes	64,280	75,970
Municipal taxes	1,629	1,477
Intelig proceedings (purchase price allocation)	93,121	94,835
	216,423	224,858

The total provision recorded is substantially composed by the following proceedings:

Federal taxes

The provision recorded by TIM Celular has been made for twelve cases referring to challenges related to payment of certain contributions or taxes, such as, CIDE (Contribution for Intervention in the Economic Domain), CPMF (Provisional Contribution on Financial Activities), CSLL (Social Contribution on Income) and IRRF (Withhold tax), penalty regarding FUST (Fund to Improve the

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

General Access to Telecommunications Services) payment due to the use of the argument of the spontaneous complaint and ancillary obligations. In these cases, the main amounts relate to court actions in which TIM intends to have the right not to pay the CPMF () allegedly due to simultaneous purchase and sale transactions of foreign currency and changes to account holders as a result of mergers, with amounts provisioned currently totaling R\$33,172 (R\$31,338 as at December 31, 2015), as well as the amount corresponding to the fine and interest on FUST contribution for the year 2009, which does not include benefits from voluntary reporting, for which the amount provisioned in August 2015 and updated is R\$12,683 (R\$11,512 as at December 31, 2015).

The provision for Intelig regarding federal taxes has been made for three cases challenging the offsetting of federal taxes using the negative balance of IRPJ and the CSLL carried forward from periods prior to offsetting, totaling the updated amount of R\$6,077 (R\$4,968 as at December 31, 2015).

State taxes

The provision for TIM Celular covers forty-seven proceedings, of which the most important are the amounts for tax assessments questioning the usage of ICMS debits, as well as the documentation supporting the credits appropriated by the Company, for which the updated amount provided is R\$13,652 (R\$24,626 as at December 31, 2015), as well as amounts allegedly not subject to taxation, regarding the provision of telecommunication services, and recorded in July 2016, for which the updated amount is R\$4,183.

The provision for Intelig referring to state taxes covers eight proceedings, and includes the amounts of assessments questioning the documentation that supported the credits appropriated by the Company, for which the updated amount provided is R\$14,414 (R\$17,369 as at December 31, 2015).

Municipal taxes

These include the amounts involved in assessments questioning the withholding and payment of the ISS-source on services provided by third parties with no employment relationship, as well as the payment of own ISS regarding co-billing services.

Intelig PPA

Tax proceedings arising from the acquisition of Intelig and included in its purchase price allocation process amount to R\$93,121 (R\$94,835 as at December 31, 2015).

(d) Regulatory processes

ANATEL has brought administrative proceedings against the subsidiaries for: (i) failure to meet 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.

As at December 31, 2016, the amount classified as representing a probable risk related to Procedures to Verify Breaches of Obligations (“PADOs”), after monetary adjustment, was R\$29,282 (R\$28,621 as at December 31, 2015).

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)***(e) Legal and administrative processes involving possible losses***

Civil, labor, tax and regulatory actions have been filed against the Company and its subsidiaries involving a risk of loss that is classified as possible by the Company's legal advisors and the Management. No provisions have been set up for these legal and administrative proceedings, and no materially adverse effects are expected on the financial statements, as shown below:

	2016	2015
Civil (e.1)	1,698,901	1,484,672
Labor (e.2)	678,290	467,607
Tax (e.3)	13,832,157	11,577,042
Regulatory (e.4)	69,572	65,849
	16,278,920	13,595,170

From December 2016, the administrative and legal proceedings assessed as possible losses and monitored by the Management started to be disclosed at their updated values, together with the comparative balances for the year 2015.

The main proceedings for which the risk of loss is classified as possible are described below:

e.1. Civil

	2016	2015
Actions filed by consumers (e.1.1)	679,577	639,923
ANATEL (e.1.2)	202,777	160,210
Procon and Public Prosecutor's Office (e.1.3)	316,007	316,385
Former trade partners (e.1.4)	203,314	160,027

Social, environmental and infrastructure (e.1.5)	130,894	56,201
Other	166,332	151,926
	1,698,901	1,484,672

e.1.1. Lawsuits filed by consumers

These actions refer particularly to alleged undue billing, contract cancellation, service quality, deficiencies and failures in equipment delivery, and unjustified inclusion in debt recovery/protection schemes.

e.1.2. ANATEL

The subsidiaries are parties to lawsuits filed against ANATEL for the following reasons: (i) claim a contribution of 2% on the revenue obtained from value-added services (“VAS”) and interconnection; (ii) *pro rata* monetary restatement applied to the price proposal established in the call notice for the use of 4G frequencies; and (iii) alleged non-compliance with service quality targets.

e.1.3. Procon and Public Prosecutor’s Office

TIM is a party to court and administrative lawsuits filed by the Public Prosecutor’s Office and Procon (Consumer Protection Agency) arising from consumer complaints that include: (i) alleged failure in the provision of network services; (ii) alleged failure in the delivery of devices; (iii) alleged non-compliance with state legislation; (iv) contract model and alleged undue charging –

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

for VAS; (v) alleged violation of SAC Decree; (vi) alleged violation of agreements; and (vii) blocking of data.

e.1.4. Former trade partners

TIM is a defendant in actions filed by several former trade partners who are claiming, among other things, amounts arising from alleged non-compliance with agreements.

e.1.5. Social, environmental and infrastructure

The subsidiaries are parties to lawsuits involving different agents that challenge aspects related to: (1) licensing, such as Environmental licensing and Structure licensing (installation/operation); and (2) (i) electromagnetic radiation emitted by the Telecom structures; (ii) renewal of leasing land agreements to install sites; (iii) materials disposed in rented land as a result of sites or towers installed; and (iv) misrepresentation of documents; among others.

e.2. Labor claims

There are 6,039 labor claims filed against the Company and its subsidiaries as at December 31, 2016 (3,400 as at December 31, 2015) related to claims made by former employees of service providers in the amount of R\$678,290 (R\$467,607 as at December 31, 2015).

A significant percentage of the existing proceedings relate to organizational restructuring processes, with highlights including the closure of the Client Relationship Centers (call centers), and internal layoff in certain operational

sites/areas, which resulted in the termination of employees. In addition to these proceedings, there are also those filed by outsourced service providers alleging employment relationships with TIM, in the total amount of R\$9,256 (R\$12,809 as at December 31, 2015).

The Company is a party to public civil actions filed by the Labor District Attorney's Office alleging irregular outsourcing practices, with collective moral damages due to outsourcing totaling R\$60,351 (R\$59,161 as at December 31, 2015).

A group of lawsuits have been filed in the State of Paraná, involving claims for damages as a result of certain inconsistency in the employment contract. 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, in the amount of R\$3,521, and a probable amount of R\$711.

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*, *Jornal do Brasil* and *JB Editora* employees who have filed claims requesting the inclusion of Holdco as a defendant. Prior to the merger with TIM Participações and Holdco, who belonged to the Docas economic group, of which *Gazeta Mercantil* and *Jornal do Brasil* are part.

e.2.1. Social Security

TIM Celular received an Assessment Notice referring to an alleged irregularities in the payment of social security contributions in connection with the payment of profit-sharing amounting to R\$5,372 (R\$4,590 at December 31, 2015). TIM Celular was also assessed for social security contributions that were allegedly due in connection with hiring bonuses, non-adjusted bonuses, payments to self-employed persons and sales incentives in the amount of R\$5,686 (R\$8,091 as at December 31, 2015).

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

Intelig received Tax Assessments arguing irregularities in the payment of social security contributions levied on profit sharing; retention of 11% on service agreements; failure to pay Management's fees and failure to properly fill out the FGTS– GFIP tax form, and erroneous GFIP declaration totaling R\$43,496 (R\$43,354 as at December 31, 2015).

e.3. Tax

	2016	2015
Federal Taxes (e.3.1)	3,560,440	2,906,586
State Taxes (e.3.2)	6,982,809	5,925,583
Municipal Taxes (e.3.3)	509,613	528,729
FUST, FUNTTEL and EBC (e.3.4)	2,779,295	2,216,144
	13,832,157	11,577,042

e.3.1. Federal Taxes

The assessment against TIM Group for federal taxes amounted to R\$3,560,440 as at December 31, 2016. Of this total, the following issues stand out:

Amortization of goodwill paid on the acquisition of mobile phone companies, deduction of goodwill amortization expenses, exclusion of goodwill reversal, other effects and the disallowance of offsetting and estimated deductions (i) paid, alleged improper use of SUDENE benefits caused by lack of formalization of these benefits by Federal Revenue Department (“RFB”) and failure to pay the estimated IRPJ and CSLL amounts. The amount involved is R\$2,190,975 (R\$1,928,242 as at December 31, 2015).

(ii)

Method of offsetting tax losses and negative bases. The amount involved is R\$185,001 (R\$154,665 as at December 31, 2015).

(iii) Collection of CSLL on monetary variations for swap transactions, recorded on a cash basis. The amount involved is R\$58,914 (R\$54,206 as at December 31, 2015).

(iv) Payments of IRRF on revenue from overseas residents, including those remitted for international roaming and payments to unidentified beneficiaries, as well as collection of CIDE on royalties remitted overseas, including remittances for international roaming. The amount involved for TIM Celular is R\$229,061 (R\$212,271 as at December 31, 2015), and for Intelig, the amount is R\$52,963 (R\$44,098 as at December 31, 2015).

(v) Charge of IRPJ, PIS/COFINS and CSLL debts for the non-approval or partial approval of offsetting carried out by the Company using credits from withholding tax on financial investments and the negative IRPJ balance. The amount involved is R\$412,741 (R\$353,705 as at December 31, 2015).

e.3.2. State Taxes

Assessment against TIM Group for state taxes amounted to R\$6,982,809 as at December 31, 2016. Of the total amount, the following issues stand out:

(i) Failure to include unconditional discounts offered to customers in the ICMS calculation base, and a fine for alleged failure to comply with related ancillary obligations, including

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

failure to submit register 60i of the SINTEGRA file as required by Federal Law. The amount involved is R\$1,200,113 (R\$1,222,432 as at December 31, 2015).

(ii) Use of tax benefit (Program for Promoting the Integrated and Sustainable Economic Development of the Federal District – “PRÓ-DF”) granted by the tax authority itself, but subsequently declared unconstitutional, and alleged undue crediting of ICMS on interstate purchases of goods with tax benefits granted in the state of origin. The amount involved is R\$985,842 (R\$813,255 as at December 31, 2015).

(iii) Credit reversal and late use of credit for purchase of fixed assets. The amount involved is R\$907,777 (R\$721,631 as at December 31, 2015).

(iv) ICMS credits booked and debits reversed, as well as identification and supporting documentation for amounts and information passed to customer bills, such as tax rates and credit granted, as well as credits related to transactions involving tax substitution, and exempt and non-taxable transactions. The amount involved is R\$1,230,516 (R\$950,459 as at December 31, 2015).

(v) Use of credit to purchase electricity for the companies’ production processes. The amount involved is R\$322,722 (R\$197,214 as at December 31, 2015).

(vi) Alleged failure to deduct tax on network infrastructure lease transactions where the tax originally deferred was allegedly not paid in the subsequent phase, pursuant to Agreement 128/98. The amount involved is R\$112,537 (R\$100,980 as at December 31, 2015).

(vii) Liability for ICMS and FECOP (State Anti-Poverty Fund) on fixed asset purchases and other transactions, and on the provision of telecommunications services in specific cases determined by the law. The amount involved is R\$169,431 (R\$145,975 as at December 31, 2015).

Challenge due to certain inconsistencies between the information stated in ancillary obligations data and its (viii) respective tax payments, which also resulted in penalty claimed on errors or inconsistencies on ancillary obligations. The amount involved is R\$234,006 (R\$81,977 as at December 31, 2015).

Alleged failure to pay ICMS arising from debts reversed regarding pre-paid services, as well as alleged undue (ix) ICMS credit regarding outgoing goods allegedly benefiting from a reduction in the calculation base. The amount involved is R\$69,195 (R\$84,657 as at December 31, 2015).

(x) Taxation of international roaming services. The amount involved is R\$39,665 (R\$36,478 as at December 31, 2015).

(xi) Credits booked for the return of cell phones on free leases. The amount involved is R\$105,418 (R\$24,397 as at December 31, 2015).

(xii) Cancellation of telecommunications services due to improper invoicing/subscription fraud, alleged incorrect use of credit and duplication of ICMS. The amount involved is R\$22,499 (R\$25,419 as at December 31, 2015).

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

e.3.3. Municipal Taxes

The total assessment against the TIM Group for municipal taxes is R\$509,613 as at December 31, 2016. Of this amount, the following issues stand out:

- (i) Payment of ISS and of a punitive fine for failure to pay the alleged tax on various revenue accounts of the Company. The amount involved is R\$128,145 (R\$119,333 as at December 31, 2015).
- (ii) Collection of ISS on imports of services. The amount involved is R\$183,962 (R\$171,507 as at December 31, 2015).

e.3.4. FUST, FUNTTEL and EBC

The amount assessed against TIM Group for contributions to FUST, FUNTTEL and EBC is R\$2,779,295 as at December 31, 2016 (R\$2,216,144 as at December 31, 2015). The principal discussion involves the payment of the contributions to FUST (Telecommunications Services Universalization Fund) and FUNTTEL (Telecommunications Technical Development Fund) from the issue by ANATEL of Ruling No. 07/2005, relating primarily to the payment of the FUST and FUNTTEL contributions on interconnection revenue earned by telecommunications service providers, from the effective date of Law N^o. 9998/2000.

Additionally, the Company is challenging the legality of charging the contribution for development of public radio broadcasting (Contribution to EBC, Brazil's Communication Agency), under Law No. 11652/2008.

e.4. Regulatory issues

ANATEL has filed administrative proceedings against the subsidiaries for: (i) not complying with certain quality indicators; (ii) defaulting on other obligations under the Instruments of Authorization and; (iii) not complying with SMP and STFC regulations, among other matters.

As at December 31, 2016, the amount stated for Breach of Obligation procedures (locally PADOs), considering the monetary restatement that was considered as representing a possible loss was R\$69,572 (R\$65,849 as at December 31, 2015).

Upon obtaining an extension of the licenses to use radio frequencies associated with SMP, TIM Celular subsidiary incurs contractual charges on revenue from service plans sold under each authorization. However, ANATEL has included interconnection revenue in the calculation base for these charges since 2011, and revenue from value-added services since 2012. In our opinion, this revenue should not be included, because it is not expressly stipulated in the original Instruments of Authorization; therefore the charges received are discussed in the administrative and/or legal spheres.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**24. Provision for decommissioning costs**

The changes in the obligations deriving from future asset retirement are set forth below:

	2016	2015
Opening balance	31,609	286,275
Reversal/disposals recorded throughout the year, net of additions (*)	(11,029)	(258,627)
Monetary adjustment for the year	1,146	3,961
Closing balance	21,726	31,609

(*) The amounts consolidated include the effects of R\$193,205 and R\$4,220 in 2015 and 2016 respectively, arising from the disposals related to the sale of towers (Note 1.b).

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 initial costs are allocated through this timetable, updated at 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 flow is the Company's average debt cost, which was 12.43% p.a. as at December 31, 2016 (12.27% p.a. as at December 31, 2015).

25. Shareholders' equity

(a) Share capital

The capital stock is stated at the amount effectively raised from shareholders, net of the costs directly linked to the issuance process.

When a company within the Group purchases shares in the Company to hold 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 subsequently reissued, any amount received, net of additional costs directly attributable to the transaction, is included in shareholders' equity.

The Company is authorized to increase its capital following a resolution by the Board of Directors, without amending the bylaws, up to the limit of 4,450,000,000 common shares.

The subscribed and paid up capital is represented as follows:

F-55

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2016	2015
Value paid up	9,913,415	9,913,415
(-) Funding costs	(47,117) (47,117
Net value paid up	9,866,298	9,866,298
Number of common shares	2,421,032,479	2,421,032,479

(b) Capital reserves

The use of capital reserves is in accordance with the provisions of Article 200 of Law No. 6404/76, which refers to joint stock companies. These reserves are comprised of:

	2016	2015
Special goodwill reserve	380,560	380,560
Stock options	24,678	20,876
Tax benefit reserve	1,158,911	1,040,661
	1,564,149	1,442,097

b.1. 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 the shares held by the minority shareholders of TIM Sul S.A. and TIM Nordeste Telecomunicações S.A. This acquisition took place through the issue of new shares of TIM Participações S.A., converting those companies into full subsidiaries. At that time, this transaction was recorded at the book value of the shares, with no goodwill recorded arising from the difference between the market value and the price of the shares negotiated.

Upon the first time adopting of IFRS, the Company availed itself of the exemption that allows a subsidiary, when it adopts international accounting practices subsequent to its parent company, to include the balances previously reported to the parent company for consolidation purposes. In the balance sheet for 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 approved the takeover of Holdco, a company that held 100% of the equity of Intelig, by TIM Participações. As a result of this transaction, the Company issued 127,288,023 shares.

Based on the former Brazilian accounting principles (“BR GAAP”), the acquisition was recorded at the net book value of the assets acquired as at the base date of November 30, 2009.

When IFRS was first adopted, the acquisition was recorded as at the base date December 31, 2009, taking into account the market value of the common and preferred shares of TIM Participações as at December 30, 2009, amounting to R\$739,729. The difference between this

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

amount and the book value recorded under the former BR GAAP (R\$516,725) created goodwill against capital reserves of R\$223,004.

b.2. 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 26).

b.3. Tax benefit reserve

TIM Celular enjoys tax benefits that place restrictions on the distribution of the profits of this subsidiary. According to the legislation that establishes these tax benefits, the amount of taxes waived as a result of exemptions and reductions in the tax charges 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 the offsetting of losses or capital increases. The accumulated amounts of benefits enjoyed by TIM Celular as at December 31, 2016 and December 31, 2015 were R\$1,158,911 and R\$1,040,661, respectively.

(c) Profit reserves

c.1. Legal reserve

This refers to 5% of the profit for every year ended December 31, until the legal reserve equals 20% of the capital stock. Also, the Company is allowed to cease contributing to such reserve when, together with the other capital

reserves, it exceeds 30% of capital stock.

This reserve can be used only for capital increase or offsetting of accumulated losses.

c.2. Statutory reserve for expansion

This reserve is set up based on paragraph 2, Article 46 of the Company's bylaws and is intended for the expansion of the corporate business.

The balance of profits not compulsorily allocated to other reserves and not allocated for the payment of dividends is allocated to this reserve, which may not exceed 80% of the capital stock. Once this limit is reached, it is incumbent on the shareholders' meeting to decide on the allocation of this balance, either distributing it to shareholders or increasing the capital.

(d) Dividends

Dividends are calculated in accordance with the bylaws and with 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, equivalent to 25% of the revised profit.

As provided for in the Company's bylaws, dividends not claimed within three years will be reversed to the Company.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

As at December 31, 2016, dividends were calculated as shown below:

	2016	2015
Net income for the year	750,427	2,071,145
(-) Legal reserve constitution	(37,521)	(103,557)
(-) Tax incentives not to be distributed	(118,250)	(93,123)
Revised profit	594,656	1,874,465
Dividends to be distributed:		
Minimum dividends calculated considering 25% of the revised profit	148,664	468,616
Dividends per share (Reais per share)	0,06	0,19

The Annual and Extraordinary General Meetings of TIM Participações S.A. held on April 12, 2016, approved the payment of minimum mandatory dividends in the amount of R\$468,616. The said amount was paid on June 10, 2016.

The balance of dividends payable as at December 31, 2016 contains minimum dividends, as calculated above, in addition to amounts not settled in previous years, in the amount of R\$57,447 (R\$56,163 as at December 31, 2015).

26. Stock options**2011-2013 Plan and 2014-2016 Plan**

At the annual meeting on August 5, 2011, and April 10, 2014, the shareholders of TIM Participações S.A. approved the long term incentives plans, respectively the “2011-2013 Plan” and the “2014-2016 Plan,” for senior management and key executives of the Company and its subsidiaries.

The exercise of options under the 2011-2013 Plan is dependent on the achievement of specific performance targets, while the exercise of options of the 2014-2016 Plan is not subject to this condition. The Exercise Price is calculated with an upward or downward adjustment to the Base Share Price, according to the share performance, as provided for in each Plan.

Stock options are effective for a period of six years and the Company has no legal or informal obligation to repurchase or settle the options in cash.

On November 8, 2016, the 3rd Grant was made under the 2014-2016 Plan.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The variations in the quantity of options are presented below:

Date of grant	Stock Options Granted	Maturity date	Exercise price	Balance at the beginning of the year	Granted in the year	Exercised in the year (*)	Forfeited in the year	Falling due in the year	Balance at the end of the year
2016									
2014-2016 Plan – 3 ^d grant	3,922,204	Sep/22	R\$8.10	-	3,922,204	-	-	-	3,922,204
2014-2016 Plan – 2 ^d grant	3,355,229	Oct/211	R\$8.45	3,355,229	-	-	(780,144)	-	2,575,085
2014-2016 Plan – 1 st grant	1,687,686	Sep/20	R\$13.42	1,305,562	-	-	(240,903)	-	1,064,659
2011-2013 Plan – 3 ^d grant	3,072,418	Jul/19	R\$8.13	1,531,984	-	-	(440,520)	-	1,091,464
2011-2013 Plan – 2 ^d grant	2,661,752	Sep/18	R\$8.96	513,904	-	-	(11,615)	-	502,289
2011-2013 Plan – 1 st grant	2,833,595	Aug/17	R\$8.84	-	-	-	-	-	-
Total	17,532,884			6,706,679	3,922,204		(1,473,182)		9,155,701
Average weighted price for the year			R\$8.87						

(* No options were exercised in 2016 for the “2011-2013 plan” since the minimum performance conditions have not been met.

Date of grant	Stock Options Granted	Maturity date	Exercise price	Balance at the beginning of the year	Granted in the year	Exercised in the year (*)	Forfeited in the year	Falling due in the year	Balance at the end of the year
2015									
2014-2016 Plan – 2 ^d grant	3,355,229	Oct/21	8.45	-	3,355,229	-	-	-	3,355,229
2014-2016 Plan – 1 st grant	1,687,686	Sep/20	13.41	1,456,353	-	-	(150,791)	-	1,305,562
2011-2013 Plan – 3 ^d grant	3,072,418	Jul/19	8.13	1,971,900	-	-	(439,916)	-	1,531,984
2011-2013 Plan – 2 ^d grant	2,661,752	Sep/18	8.95	671,091	-	-	(157,187)	-	513,904
2011-2013 Plan – 1 st grant	2,833,595	Aug/17	8.84	-	-	-	-	-	-
Total	13,610,680			4,099,344	3,355,229	-	(747,894)	-	6,706,679
Average weighted price for the year			9.38						

(* No options were exercised in 2015 for the “2011-2013 plan”, since minimum performance conditions have not been met.

Below are the significant data included in the model:

Date of grant	Weighted average price of shares on the date of grant	Volatility	Expected useful life of the option	Annual interest rate without risk
2011 Grant	R\$8.31	51.73% p.a.	6 years	11.94%p.a
2012 Grant	R\$8.96	50.46% p.a.	6 years	8.89%p.a
2013 Grant	R\$8.13	48.45% p.a.	6 years	10.66%p.a
2014 Grant	R\$13.42	44.60% p.a.	6 years	10.66%p.a

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

2015 Grant R\$8.45	35.50% p.a.	6 years	16.10%p.a
2016 Grant R\$8.10	36.70% p.a.	6 years	11.73% p.a

The Base Share Price was calculated using the weighted prices of the shares of TIM Participações, during the following periods:

2011-2013 Plan – 1st Grant - Volume traded and the trading price of the shares in TIM Participações in the period of 30 days prior to July 20, 2011 (the date when the Company's Board of Directors approved the benefit).

F-59

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

2011-2013 Plan– 2^d Grant - Volume traded and the trading price of TIM Participações shares during the period July 1, 2012 to August 31, 2012.

2011-2013 Plan– 3^d Grant - Volume traded and the trading price of TIM Participações shares during the period of 30 days preceding July 20, 2013.

2014-2016 Plan– 1st Grant - Volume traded and the trading price of TIM Participações shares during the period of 30 days preceding the date determined by the Board of Directors (September 29, 2014).

2014-2016 Plan– 2^d Grant - Volume traded and the trading price of TIM Participações shares during the period of 30 days preceding the date determined by the Board of Directors (September 29, 2015).

2014-2016 Plan– 3^d Grant - Volume traded and the trading price of TIM Participações shares during the period of 30 days preceding the date determined by the Board of Directors (September 29, 2016).

Using the accruals basis of accounting, the expenses related to the long term benefit plan are being accounted for on a monthly basis and, as at December 31, 2016, totaled R\$3,802 (R\$4,504 as at December 31, 2015).

27. Revenue

Revenue from services rendered

The principal source of service revenue is from monthly subscriptions, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges and interconnection revenue. The revenue is recognized as the services are used, net of sales taxes and discounts granted on services. The revenue is recognized

only when the amount of services rendered can be estimated reliably.

The revenue is recognized monthly via invoicing, and billable revenue between the billing date and the end of the month (unbilled) is identified, processed and recognized in the month in which the services were rendered. Calculations of unbilled revenue from the previous month are reversed out and unbilled amounts are calculated at each month end, considering the revenue billed in the previous month.

Interconnection traffic and roaming revenue are recorded separately, without offsetting the amounts owed to other telecoms operators (the latter are accounted for as operating costs).

The minutes not used by customers and/or rechargeable credit balances in the possession of commercial partners regarding the prepaid service system are recorded as deferred revenue and allocated to income when these services are actually used by customers.

Revenue from product sales

Revenue 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.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	2016	2015 Revised	2014 Revised
		(Note 2(e))	(Note 2(e))
Service revenue - Mobile	20,188,962	22,121,450	23,636,467
Service revenue - Landline	1,178,856	1,003,185	901,159
Service revenue	21,367,818	23,124,635	24,537,626
Goods sold	1,377,771	2,646,866	4,471,320
Gross operating revenue	22,745,589	25,771,501	29,008,946
Deductions from gross revenue			
Taxes	(5,694,886)	(6,248,310)	(6,723,935)
Discounts given	(1,394,223)	(2,213,041)	(2,584,002)
Returns and other	(39,067)	(167,885)	(198,893)
	(7,128,176)	(8,629,236)	(9,506,830)
Total Revenue	15,617,413	17,142,265	19,502,116

28. Operating costs and expenses

	2016				2015			
	Cost of services provided and goods sold (1)	Selling expenses (2)	General and administrative expenses (3)	Total	Cost of services provided and goods sold (1)	Selling expenses (2) Revised (Note 2(e))	General and administrative expenses (3)	Total
Personnel	(59,026)	(673,571)	(272,699)	(1,005,296)	(91,026)	(687,629)	(265,198)	(1,043,853)
Third party services	(506,356)	(1,965,329)	(433,396)	(2,905,081)	(490,872)	(2,187,616)	(483,624)	(3,162,112)
	(2,676,813)	-	-	(2,676,813)	(2,805,364)	-	-	(2,805,364)

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Interconnection and means of connection									
Depreciation and amortization	(2,884,639)	(181,916)	(445,536)	(3,512,091)	(2,535,683)	(162,267)	(319,106)	(3,017,056)	
Taxes, fees and contributions	(33,627)	(1,047,416)	(13,474)	(1,094,517)	(26,331)	(874,619)	(13,756)	(914,706)	
Rent and insurance	(551,020)	(101,731)	(72,276)	(725,027)	(495,550)	(93,265)	(67,465)	(656,280)	
Cost of goods sold	(975,959)	-	-	(975,959)	(1,856,668)	-	-	(1,856,668)	
Publicity and advertising	-	(438,837)	-	(438,837)	-	(560,558)	-	(560,558)	
Losses on doubtful accounts	-	(266,442)	-	(266,442)	-	(230,357)	-	(230,357)	
Other	(5,966)	(43,787)	(21,341)	(71,094)	(5,363)	(26,663)	(46,128)	(78,154)	
	(7,693,406)	(4,719,029)	(1,258,722)	(13,671,157)	(8,306,857)	(4,822,974)	(1,195,277)	(14,325,108)	

2014

	Cost of services provided and goods sold (1)	Selling expenses (2) Revised (Note 2(e))	General and administrative expenses (3)	Total
Personnel	(80,259)	(624,730)	(257,887)	(962,876)
Third party services	(439,471)	(2,189,182)	(553,466)	(3,182,119)
Interconnection and means of connection	(3,429,108)	-	-	(3,429,108)
Depreciation and amortization	(2,345,481)	(158,888)	(202,789)	(2,707,158)
Taxes, fees and contributions	(13,887)	(1,043,713)	-	(1,057,600)
Rent and insurance	(412,519)	(95,057)	(62,937)	(570,513)
Cost of goods sold	(3,340,449)	-	-	(3,340,449)
Publicity and advertising	-	(622,781)	-	(622,781)
Losses on doubtful accounts	-	(248,576)	-	(248,576)
Other	(22,746)	(46,943)	(53,675)	(123,364)
	(10,083,920)	(5,029,870)	(1,130,754)	(16,244,544)

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The Company and its subsidiaries contribute to public and private pension insurance plans in a mandatory, contractual or voluntary manner during the time that the employee is working at the Company and its subsidiaries. These plans do not originate any additional obligation for the Company. If the employee leaves the Company or its subsidiaries before the period required to become entitled to the contributions made by the sponsors, the amounts to which the employee are no longer entitled to, and which may represent a reduction in future contributions of the Company and its subsidiaries to active employees, or a refund in cash of these amounts, are recorded in assets.

(1) In 2016, the Company recorded the amount of R\$3,596 (R\$5,283 in 2015) regarding post-employment benefits in the costs group.

(2) In 2016, the Company recorded the amount of R\$4,229 (R\$6,454 in 2015) regarding post-employment benefits in the group of general and administrative expenses.

(3) In 2016, the Company recorded the amount of R\$3,732 (R\$6,587 in 2015) regarding post-employment benefits in the group of selling expenses.

29. Other income (expenses), net

		2015	2014
	2016	Revised	Revised
		(Note 2(e))	(Note 2(e))
Income			
Subsidy income, net	28,134	21,513	12,370
Fines on telecommunications services	39,639	37,630	34,107
Income from disposal of assets (*)	57,563	1,459,067	-
Other income	181,234	50,528	9,002

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

	306,570	1,568,738	55,479
Expenses			
FUST/FUNTTEL (**)	(163,955)	(168,351)	(189,903)
Taxes, fees and contributions	(2,980)	(3,970)	(3,270)
Provision for legal and administrative proceedings, net of reversals	(352,154)	(348,339)	(260,235)
Expenses from disposal of assets (*)	(14,473)	(245,756)	-
Other expenses	(21,987)	(23,124)	(31,682)
	(555,549)	(789,540)	(485,090)
Amortization of authorizations	(273,081)	(344,915)	(345,421)
	(828,630)	(1,134,455)	(830,511)
Other income (expenses), net	(522,060)	434,283	(775,032)

(*) During the year 2015, 5,483 towers were transferred to ATC, relating to the 1st, 2nd and 3rd tranches, and in 2016 a further 336 towers were transferred, relating to the 4th and 5th tranches, pursuant to the agreements executed by the parties (Notes 13 and 1.b). The leaseback was analyzed and classified as a financial lease, taking into account the requirements of IAS17.

The risks and benefits of the assets were transferred to the purchaser on the date of each transfer (April 29, 2015, September 30, 2015, December 16, 2015, June 9, 2016 and December 20, 2016), and net revenue from the disposal of these assets in the amounts of R\$44,036 and

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

R\$1,210,980 in the years ended December 31, 2016 and 2015, respectively, were recognized as other operating revenue.

(**) Expenses incurred in relation to contributions on several sources of telecommunications revenue due to ANATEL, according to the legislation in force.

30. Financial income

		2015	2014
	2016	Revised	Revised
		(Note	(Note
		2(e))	2(e))
Interest on financial investments	477,667	647,629	521,637
Interest received from clients	43,340	60,208	52,707
Swap interest	129,179	50,611	35,452
Interest on leasing	25,756	24,045	32,085
Monetary adjustments	61,628	71,888	66,319
Other income	12,880	8,327	6,347
	750,450	862,708	714,547

31. Financial expenses

2016	2015	2014
------	------	------

Interest on borrowing and financing	(199,077)	(179,726)	(337,172)
Interest paid to suppliers	(21,474)	(142,092)	(128,796)
Interest on taxes and fees	(28,944)	(21,124)	(10,658)
Swap interest	(230,642)	(308,216)	(185,284)
Interest on leasing	(246,280)	(145,274)	(43,904)
Monetary adjustments	(269,031)	(178,904)	(154,731)
Discounts granted	(61,082)	(64,004)	(86,333)
Other expenses	(99,955)	(76,184)	(50,416)
	(1,156,485)	(1,115,524)	(997,294)

32. Foreign exchange variations, net

	2016	2015	2014
Gain			
Loans and financing	1,162,987	-	3,469
Suppliers	12,238	9,107	6,022
Swaps	512,824	1,109,006	273,444
Other	10,996	29,902	18,074
	1,699,045	1,148,015	301,009
Loss			
Loans and financing	(714,773)	(1,108,309)	(273,496)
Suppliers	(8,213)	(28,949)	(11,469)
Swaps	(960,635)	-	(5,780)
Other	(20,269)	(8,348)	(8,159)
	(1,703,890)	(1,145,606)	(298,904)
Foreign exchange variations, net	(4,845)	2,409	2,105

F-63

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The foreign exchange variations for the year relate to borrowing, financing and payments suppliers in foreign currency. Derivative financial instruments were used to reduce their effects (Note 38).

33. Income tax and social contribution expenses

		2015	2014
	2016	Revised	Revised
		(Note	(Note
		2(e))	2(e))
Current income tax and social contribution			
Income tax for the year	(309,695)	(358,188)	(343,629)
Social contribution for the year	(110,997)	(132,754)	(127,421)
Tax incentive – SUDENE/SUDAM (*)	118,250	93,123	137,192
	(302,442)	(397,819)	(333,858)
Deferred income tax and social contribution			
Deferred income tax	29,482	(378,168)	(234,493)
Deferred social contribution	9,947	(136,140)	(84,418)
	39,429	(514,308)	(318,911)
Provision for income tax and social contribution	124	(3,464)	(26)
	(262,889)	(915,591)	(652,795)

The reconciliation of income tax and social contribution expenses calculated at the applicable tax rates plus the amounts reflected in the statement of income are set out below:

		2015		2014
	2016	Revised		Revised
		(Note 2(e))		(Note 2(e))
Income before income tax and social contribution	1,013,316	3,001,033		2,201,898
Combined tax rate	34 %	34 %		34 %
Income and social contribution taxes at the combined tax rate	(344,527)	(1,020,351)		(748,645)
(Additions)/exclusions:				
Unrecognized tax losses and temporary differences	6,611	(4,106)		(25,274)
Permanent additions and exclusions				
Non-deductible donations	(4,806)	(3,058)		(5,537)
Non-deductible fines	(9,310)	(12,939)		(9,796)
Losses accounts receivable – Co billing	(11,957)	(3,267)		(7,674)
Impact of sale of towers	(30,700)	27,546		-
Other permanent additions and exclusions	7,439	(5,146)		(3,007)
Tax incentive – SUDENE/SUDAM (*)	118,250	93,123		137,192
Other amounts	6,111	12,607		9,946
	81,638	104,760		95,850
Income tax and social contribution charged to income for the year	(262,889)	(915,591)		(652,795)
Effective tax rate	25.94 %	30.51 %		29.65 %

(*) As mentioned in Note 25 b.3, according to Article 443, item I, of Decree N°. 3000/1999, Income tax rules, in order for tax incentives not to be considered within the taxable income, they must be recorded as capital reserves, and be used only to offset losses or increase share capital. The subsidiary TIM Celular has tax benefits compliant with these rules.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**34. Earnings per share***(a) Basic*

Basic earnings per share are calculated by dividing the income attributable to shareholders of the Company by the weighted average number of shares circulated during the period.

	2016	2015 Revised (Note 2(e))	2014 Revised (Note 2(e))
Income attributable to shareholders of the Company	750,427	2,085,442	1,549,103
Weighted average number of common shares issued (thousands)	2,420,237	2,420,237	2,417,850
Basic earnings per share (expressed in R\$)	0.31	0.86	0.64

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume the conversion of all dilutive potential shares.

	2016	2015 Revised	2014 Revised
--	------	-----------------	-----------------

		(Note 2(e))	(Note 2(e))
Income attributable to shareholders of the Company	750,427	2,085,442	1,549,103
Weighted average number of common shares issued (thousands)	2,420,241	2,420,325	2,418,877
Diluted earnings per share (expressed in R\$)	0.31	0.86	0.64

Note: The calculation of diluted earnings per share considered 4,535 shares related to the 3rd Grant of the 2011-2013 Plan, as mentioned in Note 26.

35. Transactions with Telecom Italia Group

The consolidated balances of transactions with companies of the Telecom Italia Group are as follows:

	Assets	
	2016	2015
Telecom Argentina Group (1)	-	3,073
Telecom Italia Sparkle (1)	5,246	6,212
Lan Group (4)	2,471	3,881
TIM Brasil (6)	12,587	2,822
Other	674	674
Total	20,978	16,662

F-65

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	Liabilities	
	2016	2015
Telecom Italia S.p.A. (2)	29,094	38,823
Telecom Argentina Group (1)	-	5,304
Telecom Italia Sparkle (1)	22,898	14,657
Italtel (3)	10,248	45,004
Lan Group (4)	7,822	3,854
TIM Brasil	4,877	4,309
Vivendi Group (7)	3,947	1,035
Other	38	38
Total	78,924	113,024

	Revenue		
	2016	2015	2014
Telecom Italia S.p.A. (2)	3,090	3,668	2,938
Telecom Argentina Group (1)	8,232	5,771	6,663
Telecom Italia Sparkle (1)	4,694	5,223	10,230
Lan Group (4)	1,627	1,590	841
Total	17,643	16,252	20,672

	Costs/Expenses		
	2016	2015	2014
Telecom Italia S.p.A. (2)	6,801	9,769	7,225
Telecom Italia Sparkle (1)	39,913	35,626	28,059
Telecom Argentina Group (1)	713	3,109	2,880
Lan Group (4)	52,938	51,806	40,444

Generali (5)	194	1,053	6,212
Vivendi Group (7)	8,075	7,669	-
Other	1,834	588	-
Total	110,468	109,620	84,820

These amounts refer to roaming, VAS, assignment of means and international voice data - wholesale. The “Telecom (1) Argentina Group” consists of the companies Telecom Personal, Telecom Argentina and Nucleo. On March 8, 2016, Telecom Italia concluded the sale of its 100% interest held in Telecom Argentina Group.

(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 (Industrial Exploration of Dedicated Lines), lease of means (submarine cables) and signaling services.

(5) The amounts refer to insurance coverage taken out for operating risks, civil liability and health insurance, among others.

(6) The amounts refer mainly to judicial deposits related to labor proceedings.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(7) The amounts refer to VAS.

The balance sheet account balances are recorded in the following groups: trade accounts receivable, prepaid expenses, suppliers and other current assets and liabilities.

The Company has social investment initiatives that include donations, projects developed by the TIM Institute and sponsorship schemes. In 2016, the Company invested over R\$19.5 million in social benefits (91% in projects of the TIM Institute, 6% in sponsorship and 3% in donations), of which some R\$17 million was invested as a social mandatory compensation relating to the credit granted by BNDES to TIM Celular.

36. Management Compensation

Key Management personnel includes the statutory officers and the Board of Directors. The compensation of key Management personnel for services rendered is shown below:

	2016	2015
Short term benefits	18,523	13,170
Share-based payments	1,200	3,029
	19,723	16,199

37. Transactions with Telefónica Group

On April 28, 2007, Assicurazioni Generali SpA, Intesa San Paolo S.p.A, Mediobanca S.p.A, Sintonia S.p.A and Telefónica S.A., entered into an agreement to, through the holding Telco S.p.A (“Telco”), hold 23.6% of the voting

capital of Telecom Italia S.p.A., the indirect parent company of TIM Participações. This transaction was approved by ANATEL on November 5, 2007, together with certain restrictions on the rights of Telefónica S.A. to guarantee the absolute segregation of businesses and operations performed by the Telefónica and TIM groups in Brazil.

Subsequently, in April 2010, as a condition for the approval of the transaction by the CADE, Telco's controlling companies signed a Performance Commitment Instrument ("TCD"), determining the rules of Telefónica participation in Telecom Italia deliberations and governance restrictions regarding the activities performed in the Brazilian market. TIM Brasil, the controlling company of TIM Participações, also signed this TCD agreement as stakeholder part.

On December 4, 2013, while inspecting compliance with the TCD, CADE imposed a penalty on TIM Brasil because the company allegedly failed to submit to CADE the agreement entered into with a company of the Telefónica Group before entering into the TCD. On December 16, 2013, TIM Brasil submitted a motion for clarification, which automatically suspended the obligation to pay the penalty until CADE has judged such clarification. In May 2015, the appeal was judged unfavorable to the Company, and the penalty, in the amount of R\$500 thousand was paid.

On December 22, 2014, the Steering Committee of ANATEL agreed with the request Telco S.p.A. split, submitted by Assicurazioni Generali S.p.A., Mediobanca S.p.A., Intesa Sanpaolo S.p.A. and Telefónica S.A., conditional on the suspension of Telefónica's entire voting rights in Telecom Italia and its subsidiaries, and revoking the monitoring commitments previously stipulated. Furthermore, according to ANATEL's decision, any equity interest of Telefónica in Telecom Italia should be eliminated within eighteen (18) months.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The Concentration Act referring to the split was approved by CADE on March 25, 2015, conditional on Telefónica's executing and complying with a Concentration Control Agreement ("ACC"), intended to facilitate Telefónica's complete disinvestment from Telecom Italia, and setting the obligations considered necessary by CADE to minimize any anti-trust concerns arising from this direct holding of Telefónica in Telecom Italia.

Concomitantly with the analysis of Telco's spin-off, ANATEL and CADE approved the acquisition of GVT by Telefónica Brasil S.A., in December 2014 and March 2015, respectively. As part of the payment for the acquisition of GVT, and successive transactions between Vivendi, Telefónica and acquisitions on the open market, Vivendi currently holds 24.68% of voting shares in Telecom Italia, and 0.95% of total shares in Telefónica.

In this context, the Federal Official Gazette published CADE's decision on April 28, 2015, confirming the extinction of the obligations established in the TCD, as well as with respect to TIM Brasil.

Subsequently, Telefónica announced through a material fact disclosed on June 24, 2015, "*the total divestiture of its interest in Telecom Italia S.p.A., in accordance with the regulatory and competition commitments assumed*".

As at December 31, 2016, therefore, there were in force exclusively between TIM Group controlled by TIM Participações and the operators of the Telefónica group in Brazil agreements involving telecommunications services covering interconnection, roaming, site-sharing and radio frequency, infrastructure-sharing, Industrial Exploration of Dedicated Line ("*Exploração Industrial de Linha Dedicada - EILD*"), as well as long distance call co-billing agreements, all entered into on an arm's length basis and considering the Brazilian regulations on providing such services as shown below:

	2016	2015	
Assets	343,835	351,147	
Liabilities	(97,541)	(122,301)	
	2016	2015	2014
Revenue	720,827	911,892	1,206,043
Costs/Expenses	(552,749)	(574,580)	(792,587)

38. Financial instruments and risk management

The financial instruments recorded by the Company and its subsidiaries include derivatives, which are financial liabilities measured at fair value through profit or loss. At each balance sheet date they are measured at fair value. Interest, monetary adjustment, exchange variation and variations arising from measurement at fair value, where applicable, are recognized in income when incurred, under financial revenue or expenses.

Derivatives are initially recognized at fair value as of the date of the derivative agreement, being subsequently revised to fair value. The method used for recognizing any gain or loss depends on whether the derivative is assigned as a hedge instrument in cases where hedge accounting is adopted.

Through its subsidiaries, the Company performs non-speculative derivative transactions, in order to: (i) reduce the exchange variation risks; and (ii) manage exposure to the interest risks involved. The Company's derivative financial transactions consist specifically of swap and foreign

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

exchange fund contracts.

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 follow:

(i) Exchange variation risks

Exchange variation risks refer to the possibility of subsidiaries incurring: i) losses on unfavorable exchange rate fluctuations, which would increase the outstanding balances of borrowing contracted in the market along with the related financial expenses; or ii) increases in the cost of commercial agreements affected by exchange variations. In order to reduce this kind of risk, the subsidiaries: i) enter into swap contracts with financial institutions with the purpose of avoiding the impact of exchange rate variations on borrowing and financing; and ii) invest in foreign exchange funds with the purpose of reducing the impacts on commercial agreements.

As at December 31, 2016, the borrowing 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 the earnings of the subsidiaries.

The amount invested in the foreign exchange funds is intended partially to hedge foreign exchange exposure linked to US Dollar-denominated trade agreements, however, the hedge accounting was only partially applied to contracts to which the IFRS rules apply.

Besides the risks mentioned above, no other significant financial assets and liabilities 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 obtained by the subsidiary TIM Celular, when these rates are not proportional to the rates of the Interbank Deposit Certificates (CDI). As at December 31, 2016, the subsidiary TIM Celular has no swap transactions linked to the TJLP.

- The possibility of unfavorable changes in interest rates would result in higher finance 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, 2016, the subsidiaries' financial funds were invested in Interbank Deposit Certificates (CDI), and this considerably reduces such risks.

(iii) Credit risk inherent in the provision of services

This risk involves the possibility of the subsidiaries incurring losses arising from the inability of subscribers to pay the amounts billed to them. To minimize this risk, the subsidiaries engage in preventive credit analysis of all requests submitted by the sales area and monitor the accounts receivable from subscribers, freezing customers' ability to use the services, among other actions, in the event that customers do not pay their debts. No individual customers contributed more than 10% of the net account receivables on December 31, 2016 and December 31, 2015 or more than 10% of the revenue from services rendered.

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

(iv) Credit risk inherent in the sale of handsets and prepaid telephone cards

The policy of the subsidiaries when selling handsets and distributing prepaid telephone cards is directly related to the credit risk levels acceptable during the normal course of business. The choice of partners, the diversification of the portfolio of accounts receivable, monitoring borrowing conditions, positions and order limits established for traders and the constitution of real guarantees are among the procedures adopted by the subsidiaries to limit possible problems in collecting from their business partners. There are no customers that contributed more than 10% of the net accounts receivable on December 31, 2016 and December 31, 2015 or more than 10% of sales revenue.

(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 transacting 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 follow:

2016		2015	
Assets	Liabilities Net	Assets	Liabilities Net

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Transactions involving derivatives	216,922	(81,473)	135,449	1,099,574	(109,512)	990,062
Current portion	82,454	(36,163)	46,291	608,915	(109,512)	499,403
Non-current portion	134,468	(45,310)	89,158	490,659	-	490,659

The consolidated financial derivative instruments with long term maturities at December 31, 2016 are as follow:

	Assets	Liabilities
2018	36,265	22,150
2019	17,592	10,375
2020	80,611	7,194
2021 onwards	-	5,591
	134,468	45,310

F-70

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**Consolidated financial assets and liabilities valued at fair value:****2016**

	Level 1	Level 2	Total balance
Assets			
Financial assets valued at fair value			
Securities	479,953	-	479,953
Derivatives used for hedging purposes	-	216,922	216,922
Total assets	479,953	216,922	696,875
Liabilities			
Financial liabilities valued at fair value through profit and loss			
Derivatives used for hedging purposes	-	81,473	81,473
Total liabilities	-	81,473	81,473

2015

	Level 1	Level 2	Total balance
Assets			
Financial assets valued at fair value			
Marketable securities	599,414	-	599,414
Derivatives used for hedging purposes	-	1,099,574	1,099,574
Total assets	599,414	1,099,574	1,698,988
Liabilities			
Financial liabilities valued at fair value through profit and loss			
Derivatives used for hedging purposes	-	109,512	109,512
Total liabilities	-	109,512	109,512

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, investments in Bank Deposit Certificates (CDBs) and Repurchases (Repos) classified as trading securities.

The fair values of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available, and rely to the minimum extent possible on entity-specific estimates. If all significant inputs required to determine the fair value of 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 or financial institutions quotes or dealer quotes for similar instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flow based on observable yield curves.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

for the remaining financial instruments.

The fair values of derivative financial instruments of the subsidiaries were determined based on the future cash flow (asset and liability position), taking into account the contracted conditions and bringing those flows to present value by means of discounting 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 follow:

	Borrowing and Receivables	Assets valued at fair value	Total
December 31, 2016			
Assets, per balance sheet			
Derivative financial instruments	-	216,922	216,922
Trade accounts receivable and other accounts receivable, excluding prepayments	2,943,269	-	2,943,269
Marketable securities		479,953	479,953
Cash and cash equivalents	5,128,186	-	5,128,186
Leasing	204,762	-	204,762
Judicial deposits	1,294,125	-	1,294,125
Other assets	83,107	-	83,107

9,653,449 696,875 10,350,324

	Liabilities valued at fair value through profit or loss	Other financial liabilities	Total
December 31, 2016			
Liabilities, per balance sheet			
Borrowing and financing	-	6,719,782	6,719,782
Derivative financial instruments	81,473	-	81,473
Suppliers and other obligations, excluding legal obligations	-	3,461,081	3,461,081
Leasing	-	1,802,238	1,802,238
Dividends payable	-	206,112	206,112
	81,473	12,189,213	12,270,686

F-72

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

	Borrowing and Receivables	Assets valued at fair value through profit or loss	Total
December 31, 2015			
Assets, per balance sheet			
Derivative financial instruments	-	1,099,574	1,099,574
Trade accounts receivable and other accounts receivable, excluding prepayments	2,882,950	-	2,882,950
Marketable securities	-	599,414	599,414
Cash and cash equivalents	6,100,403	-	6,100,403
Leasing	199,935	-	199,935
Judicial deposits	1,106,041	-	1,106,041
Other assets	149,180	-	149,180
	10,438,509	1,698,988	12,137,497

	Revised (Note 2.e) Liabilities valued at fair value through profit or loss	Other financial liabilities	Total
--	--	-----------------------------------	-------

December 31, 2015

Liabilities, as per balance sheet			
Borrowing and financing	-	7,926,437	7,926,437
Derivative financial instruments	109,512	-	109,512

Edgar Filing: TIM PARTICIPACOES SA - Form 20-F

Suppliers and other obligations, excluding legal obligations	-	3,734,555	3,734,555
Leasing	-	1,618,506	1,618,506
Dividends payable	-	524,779	524,779
	109,512	13,804,277	13,913,789

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. After initial recognition, changes in the fair value are booked in income for the year as finance income and expenses.

Financial risk hedge policy adopted by the Company – Synthesis

The Company's policy states that mechanisms must be adopted to hedge against financial risks arising from borrowing taken out in foreign currency, so as to manage the exposure to the risks associated with exchange variations.

Derivative financial instruments against exchange variations must be acquired simultaneously with the payment of the debt that gave rise to that exposure. The coverage level to be taken out for this exchange exposure is 100% of the risk, both in terms of maturity date and amount.

As at December 31, 2016 no types of margins or collateral apply to the Company's or the subsidiaries' transactions involving derivative financial instruments.

F-73

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

The criteria for choosing the financial institutions follow parameters that take into account the ratings provided by reliable risk analysis agencies, shareholders' equity and concentration levels of transactions and funding.

The transactions involving derivative financial instruments entered into by the subsidiaries and outstanding as at December 31, 2016 and December 31, 2015 are shown in the table below:

December 31, 2016

<u>Currency</u>	<u>SWAP Type</u>	<u>COUNTERPARTY</u>		<u>Total Debt</u>	<u>Total Swap (Asset Side)</u>	<u>% Coverage</u>	<u>AVERAGE SWAP RATE</u>	
		<u>DEBT</u>	<u>SWAP</u>				<u>Asset Side</u>	<u>Liability Side</u>
USD	LIBOR X DI	BEI	BOFA	622,980	622,980	100%	LIBOR 6M + 1.22% p.a.	94.33% of CDI
USD	LIBOR X DI	BNP	CITI, JP Morgan	78,065	78,065	100%	LIBOR 6M + 2.53% p.a.	97.42% of CDI
USD	LIBOR X DI	KfW	JP Morgan	182,046	182,046	100%	LIBOR 6M + 1.35% p.a.	102.50% of CDI
USD	LIBOR X DI	BOFA	BOFA	324,860	324,860	100%		103.60% of CDI

CURRENCY	SWAP Type	DEBT	SWAP	Total Debt	Total Swap (Asset Side)	% Coverage	AVERAGE SWAP RATE
USD	LIBOR X DI	KFW/Finnvera	JP Morgan	121,038	121,038	100%	LIBOR 3M + 2.00% p.a. LIBOR 6M + 0.75% p.a. 79.00% of CDI
USD	PRE X DI	CISCO	Santander and JP Morgan	294,138	294,138	100%	2.18% p.a. 88.05% of CDI

December 31, 2015

CURRENCY	SWAP Type	COUNTERPARTY		Total Debt	Total Swap (Asset Side)	% Coverage	AVERAGE SWAP RATE	
		DEBT	SWAP				Asset Side	Liabil
USD	LIBOR X DI	BEI	Santander, Citibank, MS and BOFA	1,859,821	1,859,682	100%	LIBOR 6M + 0.89% p.a.	90.07
USD	LIBOR X DI	BNP	CITI, JP Morgan	187,038	187,038	100%	LIBOR 6M + 2.53% p.a.	97.42
USD	LIBOR X DI	KfW	JP Morgan	304,924	304,924	100%	LIBOR 6M + 1.35% p.a.	102.5
USD	LIBOR X DI	BOFA	BOFA	468,114	468,114	100%	LIBOR 3M + 1.35% p.a.	102.0
USD	PRE X DI	CISCO	Santander	469,931	469,931	100%	2.18% p.a.	88.30

In the second quarter of 2016, the Company, concurrently with the prepayment of part of the financing from European Investment Bank (“BEI”), reversed three swaps contracted with Banco Morgan Stanley and Citibank intended to hedge the Company against foreign exchange variation risks and interest rates related to this financing.

Also in the second quarter of 2016, the Company renewed for two years part of a loan from Bank of America, which had originally been due to mature in September 2016. Because of this renewal, the Company closed a swap linked to this loan, and entered into a new swap transaction to hedge the remaining balance of the loan.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

In addition to the swap transactions mentioned in the tables above, the Company took advantage of a favorable moment, at the end of June, to close a forward swap transaction in advance in order to ensure an attractive cost of 81.5% of the CDI rate for a financing agreement in foreign currency that will be disbursed in the future to KfW/Finnvera, with a notional value of approximately US\$48 million. The swap was closed based on the same payment flow as the debt to be disbursed in the future to ensure full hedging. This transaction does not entail foreign exchange risk, since the initial US Dollar rate for this transaction (Debt and Swap) will be simultaneously based on pre-established date in the future. On December 31, 2016 the MTM of the transaction registered in the books was R\$3,956 - Assets.

Position showing the sensitivity analysis – effect of variations of different scenarios on the fair value of the swaps

In order to identify possible distortions arising from consolidated derivative financial instrument transactions currently outstanding, a sensitivity analysis was carried out taking into account three different scenarios (probable, possible and remote) and their respective impacts on results, as follow:

Description	2016	Probable Scenario	Possible Scenario	Remote Scenario
Debt in USD (BNP Paribas, BEI, BOFA, Cisco and KFW)	1,773,788	1,773,788	2,237,152	2,708,005
A) Δ Aggregate Debt Variation			463,364	934,218
Fair value of the asset side of the swap	1,773,788	1,773,788	2,237,152	2,708,005
Fair value of the liability side of the swap	(1,638,339)	(1,638,339)	(1,635,791)	(1,637,373)
Swap result	135,450	135,450	601,361	1,070,632
B) Δ Aggregate Swap Variation			465,911	935,182
C) Final result (B-A)			2,547	964

Given the characteristics of the derivative financial instruments of the subsidiaries, our assumptions basically took into account the effect of: i) The variation in the CDI and; ii) The variations in the US Dollar used in the transactions, achieving, respectively, the percentages and quotations indicated below:

Risk variable	Probable scenario (current)	Possible scenario	Remote scenario
CDI	13.63%	17.04%	20.45%
USD	3.2591	4.0739	4.8887

As the subsidiaries hold derivative financial instruments in order to hedge their respective financial debt, the variations in the scenarios are monitored from the respective subject designated as hedge, thereby showing that the counterpart of the effects involving the exposure created by the swaps will be reflected in the debt. In the case of these transactions, the subsidiaries disclosed the fair value of the subject matter (debt) and the derivative financial instrument of the hedge on separate lines, as shown in the sensitivity analysis position above, so as to reveal the net exposure of its subsidiaries in each of the three scenarios mentioned.

We wish to draw attention to the fact that the sole purpose of the transactions closed by the subsidiaries involving derivative financial transactions is to protect their balance sheet position. Therefore, any improvement or deterioration in their respective market values will represent an

Table of Contents

TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

inverse movement in the corresponding installments of the financial debt contracted, which is the designated hedge item of the subsidiaries' derivative financial instruments.

Our sensitivity analyses referring to the derivative financial instruments outstanding at December 31, 2016 were conducted taking into account mainly the assumptions surrounding the variations in market interest rates and the variations of the US Dollar used in the swap agreements. The use of these assumptions in the Company analyses was exclusively due to the characteristics of Company's derivative financial instruments, which represent exposure to interest rate and exchange variations only.

Position showing gains and losses with derivatives in the year

	2016
Net result from USD vs. CDI transactions	(549,275)

Capital management

The Group's objectives when managing capital is to safeguard the Group ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders, in addition to maintaining an optimal capital structure to reduce the cost of capital. In order to maintain or adjust its capital structure, the Company can review its policy on paying dividends, returning capital to the shareholders or also issuing new stock or selling assets to reduce its level of indebtedness, for example.

In line with other companies of the sector, the Group monitors, among other indices, its capital leverage, with is based on the Net Debt/EBITDA ratio.

Financial leverage ratios as at December 31, 2016 and 2015, may be summarized as follow:

	2016	2015 Revised (Note 2(e))
Total borrowings and derivatives (Note 19 and 38)	6,584,333	6,936,374
Leasing – Liabilities (Note 15)	1,802,238	1,618,506
Leasing – Assets (Note 15)	(204,762)	(199,935)
Debts with ANATEL (Note 18)	147,219	77,450
Less: Cash and cash equivalents (Note 4)	(5,128,186)	(6,100,403)
Foreign exchange fund (Note 5)	(479,953)	(599,414)
Net Debt - Unaudited	2,720,889	1,732,578
EBITDA (last 12 months) - Unaudited	5,209,368	6,613,411
Financial leverage ratio (*) – Unaudited	0.52	0.26
Reconciliation to net income for the year:		
	750,427	2,085,442
Net Income for the year		
Depreciation and amortization	3,785,172	3,361,971
Financial results, net	410,880	250,407
Income and social contribution taxes	262,889	915,591
EBITDA (Unaudited) (**)	5,209,368	6,613,411

(*) The variation in the ratio includes the effects from the sale of towers.

(**) EBITDA: Earnings before interest, taxes, depreciation and amortization.

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)**39. Insurance**

The Company and its subsidiaries maintain a policy for monitoring the risks inherent to their operations. Accordingly, as at December 31, 2016, the Company and its subsidiaries had insurance coverage for operating risks, third party liability, and health, among others. The Management of the Company and of its subsidiaries consider that insurance coverage is 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	R\$39,762,469
General Third Party Liability	R\$80,000
Vehicles (Executive and Operational Fleets)	R\$1,000 for Civil Liability Optional (Property Damages and Personal Injury) and R\$100 for Moral Damages.

40. Commitments**Rentals**

The Company and its subsidiaries rent equipment and properties under several rental agreements with different maturity dates. Below is a list of the minimum committed rental payments under such agreements:

2017	744,832
2018	778,349
2019	813,375
2020	849,977
2021	888,226

4,074,759

41. Other Information

On June 21, 2016 (the complaint was assigned on the 20th), OI S.A., Telemar Norte Leste S.A., OI Móvel S.A., Copart 4 Participações S.A., Copart 5 Participações S.A., Portugal Telecom International Finance B.V. and OI Brasil Holdings Coöperatief U.A. (jointly “OI”), filed for judicial reorganization with the¹⁷Business Court of Rio de Janeiro, which the court approved on June 29, 2016. The complaint states that the purpose of the action is to protect OI’s cash and assets

F-77

Table of Contents**TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016

(In thousands of *Reais*, unless otherwise indicated)

while it negotiates a judicial reorganization plan with its creditors, so that it can continue to operate. Together with the complaint, OI submitted a list of creditors, which is currently being analyzed by the court administrator appointed by the judge, which has not yet published the revised list of creditors including the credits subject to the judicial reorganization process. On September 30, 2016, the announcement containing the notice on the filing of the Judicial Reorganization Plan was published. The Reorganization Plan has not yet been approved by the creditors, and it will give details of payment of debts included in the reorganization, and of other measures for the recovery of OI Group.

The relationship between TIM and OI arises principally from regulated interconnection operations and the sharing of infrastructure, which are necessary for both operators. Thus, the net asset position of TIM in relation to the judicial reorganization of OI as at June 20, 2016, is as follows:

Interconnection	14,248
Other commercial relationship of infrastructure sharing	1,677
Total	15,925

On the basis of the information available on the date of preparation of the financial statements, TIM Management has not made any additional provision for the amounts outstanding with OI, since the reorganization plan presented by OI and the analysis conducted by the creditors pointed to a scenario in which partner suppliers could be paid within up to two years. The materiality of the balances in question and the nature of the services between the parties have also been taken into account.

In December 2016, the Technical Area of ANATEL issued a Decision Order whereby it confirmed the understanding of the effects of Resolution No. 639 of July 1, 2014, determining the application of Reference Values for the provision of EILD and indicating a reduction in the amounts charged by OI to TIM as of February 25, 2016. TIM notified OI Group of the terms of the decision, which are still being discussed by the parties. It should be noted that the Company has already agreed with other telecom operators to offset these amounts paid in excess during the aforementioned

period.

* * *

F-78