



Você, sem fronteiras.

**2011 TIM
ANNUAL REPORT**

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INTRODUCTION

This annual report provides an overview of the major achievements by TIM Participações S.A. in 2011, a year in which the company experienced extensive corporate activity: migration to the highest segment of corporate governance of the BM&FBOVESPA – *Novo Mercado*, the acquisition of AES Atimus, and an Initial Public Offering.

At the same time, 2011 was a year of very positive results for the company, retaking second place in terms of market share, consolidating its position as the fastest-growing telecommunications operator in the Brazilian market (both in numbers of subscribers and revenue) and the strengthening of its infrastructure through consistent investment.

This report seeks to trace TIM's path towards sustainable growth through profitability, within the context of a highly competitive market such as the Brazilian, describing the company's strategies, approaches and actions, as well as how it relates with its various stakeholders.

COMMUNICATING WITH ENVIRONMENTAL RESPONSIBILITY

With a view of reducing the impacts caused by this Annual Report, TIM has opted for a different way of communicating its progress in this field in 2011. This time, we have focused our efforts on launching a more audacious and interactive site, as well as this PDF file. Besides the obvious benefits of lower impacts than a paper publication, considerable thought went into the printing project of this document, so that if readers decide to print it out, it will consume much less printer ink.

Get to know the on-line version at
<http://www.relatorioweb.com.br/tim/11/>

MESSAGE FROM THE MANAGEMENT

The fourth quarter of 2011 showed that the effort and strategy employed over the last three years resulted in the creation of exceptional value for the company. In these three years, TIM initiated a process which is reshaping the Brazilian telecommunications market, allowing people to talk more, free from restrictions of time or location. The company's slogan, "voice is good", proved to be right, and in 2011 data services were accelerated through the concept of "Internet for everyone".

For TIM, Brazil is a huge community, and in that aspect the *Infinity* and *Liberty* communities have reached 60 million people (or 94% of our total subscriber base).

THREE YEARS AT A GLANCE

In these past few years, the company managed to recover subscriber's base growth, improving profitability and strengthening its differentials:

- Growth in customer base: The company ended 2011 with over 64 million users, a significant growth of 56% against the 41 million users at the end of 2009. In terms of net annual additions, 2011 was a historical record, with 13.1 million new users.
- Gain in market share: TIM has been the leader in incremental market share over the last two years, with 34% and 33% in 2010 and 2011, respectively. This enabled the company to retake second place, ending 2011 with a 26.5% market share.
- Revenue's growth acceleration: Due to the abovementioned growth in the customer base, TIM has been able to boost growth in revenues by 25% over the last three years (in 4Q11, revenue grew by 18% compared to 4Q10), the fastest growth in the industry.
- Solid growth in cash generation: One of the highlights of this period was the improvement in profitability, amid intense advertising and marketing activity. The 31% EBITDA growth over these three years exceeded the 25% growth in revenue, proving that the efficiency plan has played a fundamental role in the company's turnaround.

- On the operational side, TIM has also had continuous improvement over the last three years. The SAC/ARPU ratio totaled 2.1x in 4Q11 (against 3.0x in 4Q10), while the ratio of bad debt to gross revenues was 0.92% (against 1.7% in 4Q10).
- Corporate governance was one of the company's differentiating features during this period. Having migrated to the *Novo Mercado* segment in 2011, TIM became the only company in the telecommunications industry pertaining to the highest level of governance, aligning the interests of the controlling and the minority shareholders and ensuring a more secure environment for investors.
- Proof of TIM's sustainable approach is the fact that it has remained a member of the BM&FBovespa Corporate Sustainability Index for four consecutive years. This achievement consolidates the strategy of striving for sustainable growth, respecting all stakeholders and balancing the financial and social and environmental points of view.

NETWORK: STRENGTHENING THE FOUNDATIONS

Since 2009, TIM has invested over R\$ 8.5 billion in the business. In addition, it acquired two of the most important backbone and backhauling structures in Brazil: Intelig (2009) and AES Atimus (2011). The solid growth of the business mentioned above was only possible due to the commitment to a high-quality network, rated by Brazil's very National Telecommunications Agency (Anatel).

BUSINESS PROSPECTS:

With the company's repositioning and faster growth, TIM built a solid infrastructure and adopted the highest level of corporate governance, providing a very constructive outlook for the near future. This positive scenario for the company's business can be attributed, primarily, to some facts:

- Brazil is a huge, attractive market;
- Mobile instead of landlines: an ongoing remodeling of the telecommunications market (replacing landlines with mobiles in voice and data, growth in mobile internet);

- The business is maintaining its solid growth (customer base, revenue and earnings);
- Evolution of the network to fiber-to-the-site (FTTS) and advanced data architecture;
- Creation of an additional R\$ 4.8 billion in value added through TIM Fiber.

TIM's strategy remains a coherent and original one, based on a simple and innovative approach. With no landline revenues to protect, TIM expects to grow much faster than the competition. Nevertheless, the primary focus will always be on balancing growth with profitability.

SINCE 2009, TIM HAS INVESTED OVER R\$ 8.5 BILLION IN THE BUSINESS. ITS STRATEGY REMAINS A COHERENT AND ORIGINAL ONE, BASED ON A SIMPLE AND INNOVATIVE APPROACH.

HIGHLIGHTS OF 2011

- The subscriber base rose to 64.1 million users, +25.6% in the year, supported by growth both in the pre-paid and post-paid segments (+25.8% and +24.4% in the year, respectively).
- In 2011, gross additions amounted to 39.8 million, with net additions of 13.1 million users.
- Net revenues of R\$ 17 billion and annual growth of 18%, with an annual increase of 13% in net revenues from services.
- Growth of 41.3% YoY in gross revenues from data, amounting to R\$ 3.166 billion, or 15.3% of total mobile revenues (against 12.8% in 2010); in December, daily single users of *Infinity Web* exceeded the 2.7 million mark.
- Smartphone penetration exceeded 27% of the total base (against 8% in September 2010).
- Outgoing voice revenues (+19.1% in the year) continue to show strong growth.
- EBITDA totaled R\$ 4,628 million, +10.4% in the year, with the EBITDA margin registering 27.1%.
- EBIT rose to R\$ 2,065 million (+72.1% in the year).
- Net income totaled R\$ 1,285 million in 2011, a 66% increase over organic net income in 2010.
- Capex (minus TIM Fiber) totaled R\$ 2,983 million in 2011, or 17.5% of net revenues.
- Free cash flow from operations in 2011 amounted to R\$ 1.65 billion, with a 21% growth compared to 2010.
- Total dividends proposed for 2011 were R\$ 533 million (compared to R\$ 497 million in 2010).
- Market leader in global and network quality, according to Anatel indicators for the last 12 months.

OPERATIONAL INDICATORS	2009	2010	2010 X 2009	2011	2011 X 2010
User base in Brazil (millions)	173,959	202,944	16.7%	227,352	12.0%
Total estimated penetration	90.6%	104.7%	14.1 p.p.	123.9%	19.2 p.p.
Regions served (GSM)	2,958	3,203	8.3%	3,294	2.8%
Market share	23.63%	25.14%	1.5 p.p.	26.46%	1.3 p.p.
Total lines (000's)	41,115	51,028	24.1%	64,083	25.6%
Pre-paid lines (000's)	34,650	43,549	25.7%	54,778	25.8%
Post-paid lines (000's)	6,465	7,479	15.7%	9,305	24.4%
Gross additions (000's)	20,680	28,608	38.3%	39,755	39.0%
Net additions (000's)	4,703	9,914	110.8%	13,055	31.7%
Churn	42.4%	42.4%	0.0 p.p.	48.6%	6.2 p.p.
Total ARPU	26.6	23.7	-10.8%	21.4	-9.8%
Total MOU	83	116	39.1%	129	10.8%
SAC	85	54	-36.4%	34	-38.2%
Handsets sold (000's)	7,164	8,012	11.8%	11,780	47.0%
Capex (R\$ Mln)	2,702	2,836	4.9%	3,002	5.9%
Employees	9,231	9,712	5.2%	10,562	8.8%
Global service quality (SMPs 1 to 12)	97%	99%	2.4 p.p.	100%	0.5 p.p.
Network quality (SMPs 3,5,6,7,12)	96%	100%	3.7 p.p.	100%	-0.2 p.p.

INCOME STATEMENT* (R\$ THOUSANDS)	2009	2010	2010 X 2009	2011	2011 X 2010
TOTAL GROSS REVENUES	19,013,343	20,319,295	6.9%	24,728,769	21.7%
Gross revenues from telecommunications	17,295,680	18,761,385	8.5%	22,188,252	18.3%
Gross revenues from mobile services	16,221,451	17,480,139	7.8%	20,691,642	18.4%
Subscription and usage	8,068,181	8,911,976	10.5%	10,264,753	15.2%
Value Added Services - VAS	1,897,188	2,241,530	18.2%	3,166,437	41.3%
Long-distance	1,943,121	2,374,341	22.2%	3,181,215	34.0%
Interconnection	4,006,950	3,679,365	-8.2%	3,849,408	4.6%
Other mobile revenues	306,011	272,927	-10.8%	229,829	-15.8%
Gross revenues from landline services	1,074,229	1,281,246	19.3%	1,496,610	16.8%
Gross revenues from merchandise	1,717,663	1,557,910	-9.3%	2,540,517	63.1%
Net Revenue	13,747,028	14,457,450	5.2%	17,063,525	18.0%
Net revenue from services	12,787,865	13,571,626	6.1%	15,330,776	13.0%
Net revenues from products	959,163	885,824	-7.6%	1,732,748	95.6%
Operational Costs	(10,206,072)	(10,263,854)	0.6%	(12,435,030)	21.2%
EBITDA	3,540,956	4,193,596	18.4%	4,628,495	10.4%
EBITDA Margin	25.8%	29.0%	3.2 p.p.	27.1%	-1.9 p.p.
Depreciation and Amortization	(3,033,360)	(2,993,461)	-1.3%	(2,563,544)	-14.4%
EBIT	507,596	1,200,135	136.4%	2,064,951	72.1%
EBIT Margin	3.7%	8.3%	4.6 p.p.	12.1%	3.8 p.p.
Net Financial Income	260,601	(245,457)	-194.2%	(234,036)	-4.7%
Net Income	801,223	2,211,716	176.0%	1,285,152	-41.9%

CASH FLOW (R\$ THOUSANDS)*	2009	2010	2010 X 2009	2011	2011 X 2010
EBIT	553,462	1,200,134	116.8%	2,067,442	72.3%
Depreciation and Amortization	2,913,966	2,993,461	2.7%	2,569,769	-14.2%
Additions to permanent assets	(2,670,970)	(2,835,761)	6.2%	(3,002,377)	5.9%
Variances in operational assets and liabilities	(142,178)	9,806	N/A	13,744	40.2%
Free Cash Flow from Operations	654,280	1,367,640	109.0%	1,648,578	20.5%
Net Cash Flow	(13,534)	699,901	N/A	543,161	-22.4%

*The consolidated financial and operating information, unless otherwise indicated, is presented in accordance with the International Accounting Standards (IFRS) and in Brazilian Reals (R\$), pursuant to the "Lei das S.A.", a Brazilian Law. The analysis of the Income Statement for the year refers to the operations of TIM and Intelig, excluding the effects of the acquisitions of TIM Fiber (AES Atimus) in November 2011 – unless otherwise indicated. In the case of the cash flow, the analysis includes TIM Fiber.

**Including employees of TIM Fiber in 2011.

p.p – percentage points

PROFILE

ABOUT US

TIM Participações S.A. is Brazil's second-largest mobile telephone services provider in total number of lines, with 64 million subscribers and a 26.5% market share, according to data from the National Telecommunications Agency (ANATEL) as at December 31, 2011. Repeating the performance from 2010, we were market leaders in Brazil in net lines added in 2011, also according to ANATEL: we recorded 13 million net additions of new lines, growth of approximately 31.7% compared to the previous year.

The company is controlled by TIM Brasil Serviços e Participações S.A., a subsidiary of the Telecom Italia Group. Through our subsidiaries TIM Celular S.A. and Intelig, in addition to the mobile telephony market, we operate in the landline and long-distance telephony market, data transmission, and the internet throughout Brazil.

We are a listed company with shares on the São Paulo Stock Exchange and American Depositary Receipts (ADRs) traded on the New York Stock Exchange (NYSE). The company is also a member of a select group of companies comprising the ISE (Corporate Sustainability Index) portfolio and the only company in the telecommunications industry belonging to the *Novo Mercado* segment, the highest level of corporate governance of BM&FBOVESPA.

Innovation and quality are two of TIM's strategic pillars. Therefore we invest heavily in networks and IT, and we gain synergies with the controlling group by sharing experiences and adopting the policy of best practices. We were first movers in launching a variety of products, such as the introduction of MMS (Multimedia Messaging Service) and Blackberry in Brazil. We believe that several mobile telephony plans introduced by us in Brazil, such as *Infinity* (the pay-per-call concept, with a fixed price per call), have transformed the mobile telephony market in the country in line with our strategies of encouraging local and long-distance voice traffic, and speeding up the replacement of landlines by mobile services (the migration of traffic from landlines to mobile numbers).

During 2011 we continued our journey of innovation, launching new offers (*Infinity* and Liberty text messaging), partnerships with manufacturers like Apple, and agreements to start new business opportunities.

GEOGRAPHICAL COVERAGE

DOMESTIC COVERAGE

TIM's cell phone network structure is based on GSM (Global System for Mobile Communication) technology, the most common standard for cell phones. In 2011 we attained national coverage exceeding 94% of Brazil's urban population, with a presence in approximately 3,300 municipalities. We also have extensive nationwide data coverage, with 100% GPRS technology and 80% EDGE, besides a sophisticated 3G network available to over 67% of Brazil's urban population, in addition to on-board services on aircraft pertaining to TAM airline.

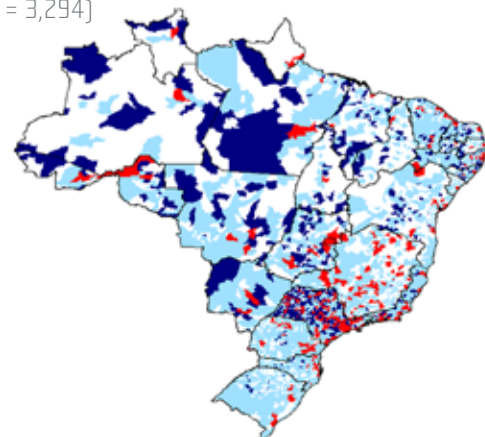
Our fiber optic network covers Brazil from north to south, with an extensive backbone of approximately 16,000 kilometers and metropolitan (backhaul and last mile) networks totaling 7,500 kilometers. Of the latter, 5,500 kilometers are in the metropolitan regions of Rio de Janeiro and São Paulo, having been acquired when we purchased AES Atimus. The unique capillarity of this network will enable us to provide high-quality, ultra-broad band service in a region that covers 550,000 companies and 8.5 million homes.

INTERNATIONAL ROAMING

Abroad, TIM continues to expand the availability of international roaming services: there are already 527 networks available in more than 200 countries on six continents (including Antarctica) for voice use and 160 countries with data coverage (GPRS/EDGE) and Multimedia (MMS), which keeps the company at the head of the market in this segment.

TIM COVERAGE

[TOTAL = 3,294]



■ 3G / GSM (488)
■ EDGE / GSM (2,127)
■ GSM ONLY (679)

The company is also market leader in roaming for pre-paid customers, for whom the service is available in 40 countries.

In 2011, the 3G coverage overseas was expanded to 97 countries. In order to provide users of the service with even greater convenience, customers traveling abroad also have coverage on ocean cruises and aircraft.

TIM'S BACKBONE

40 THOUSAND FIBER KM UNTIL 2013 WITH 20% OF SWAP



- 2012
- 2013
- 2014

MISSION

To be close to the client, offering innovative connectivity possibilities and focusing on their several expectations and requirements, in order to contribute as an agent for social advancement through sustainable management.

VISION

To be the customers' number one choice, by providing them with high-quality innovative services, while becoming the benchmark for profitability in the Brazilian telecommunications market.

VALUES

- Proactiveness
- Transparency
- Speed
- Professional excellence
- Innovation
- Entrepreneurial spirit
- Customer-focused
- Team spirit

TIMELINE

1998

MAY

The Brazilian government transfers to Tele Celular Sul Participações S.A. the ownership of Telepar Celular S.A., with Telesc Celular S.A. and CTMR Celular S.A. It also transfers to Tele Nordeste Celular Participações S.A. the control of Telpa Celular S.A., Telepisa Celular S.A., Teleceará Celular S.A., Telern Celular S.A., Telpa Celular S.A. and Telasa Celular S.A.

SEPTEMBER

The common and preferred shares of Tele Celular Sul start to be traded on the São Paulo Stock Exchange – Bovespa.

NOVEMBER

The company's ADRs start to be traded the New York Stock Exchange – NYSE.

1999

MARCH

The aforementioned sale is finally approved by Anatel and by Brazil's antitrust authority (CADE), with the company coming under the control of TIM, a Telecom Italia Group company.

2001

JANUARY

TIM acquires licenses for cellular mobile telephone bands D and E, becoming the only group authorized to provide these services throughout Brazil, operating with the same brand across a variety of regions.

2002

SEPTEMBER

The company launches GSM technology by commencing its operations in those regions where it acquired D and E Band licenses.

DECEMBER

The company transforms its respective concessions for providing cellular mobile services (Brazilian acronym, SMC) into authorizations to provide personal mobile services (Brazilian acronym, SMP).

2003

JULY

The company launches the Provider Selection Code (Brazilian acronym, CSP 41), through which it commenced long-distance domestic and international services. Its subsidiary, Telepar Celular S.A., acquires the net book assets of Telesc Celular S.A. and CTMR Celular S.A. In addition, Telepar Celular S.A. changes its name to TIM Sul S.A. ("TIM Sul").

AUGUST

The company also launches GSM technology for its A and B Band operations which had hitherto operated using TDMA (Time Division Multiple Access) technology.

2004

OCTOBER

The shares of TIM Participações are admitted for trading on the Bovespa under the trading name TIM PART. S.A., with trading codes TCSL3 for the common shares, and TCSL4 for the preferred shares. The ADRs of TIM Participações begin trading on the New York Stock Exchange (NYSE), retaining their code, TSU.

2005

MAY

Approval given for the takeover of the entire equity of TIM Sul and TIM Nordeste by TIM Participações.

2007

MAY

TIM acquires a nationwide landline license, taking an important step towards becoming a provider of convergent services.

DECEMBER

TIM purchases 1.9 GHz and 2.1 GHz 3G frequencies for all country, (except for the region known as *Triângulo Mineiro*), enabling it to offer third-generation services in all Brazilian states through mobile broad band.

2008

APRIL

TIM begins providing third-generation services under the TIM 3G+ brand, with new services such as mobile broad band, video calls and mobile TV.

SEPTEMBER

Launch of "TIM Fixo" (landline service), establishing a strategic landmark in the company's convergence strategy. TIM becomes a competitive alternative in the world of landline telephone services.

DECEMBER

TIM is included in the Bovespa Corporate Sustainability Index (Brazilian acronym, ISE), solely comprising companies highly committed to sustainability and social responsibility.

2009

JANUARY

Company's restructuring process commences, with the new CEO, Luca Luciani, taking office.

MARCH

Brand repositioning begins. TIM changes its slogan to "Você, sem fronteiras" (You without borders).

APRIL

TIM launches its new portfolio of offers with the *Infinity* plan.

DECEMBER

Conclusion of the process for the takeover of Intelig by TIM.

TIM is included, for the second consecutive year, in the Bovespa Corporate Sustainability Index (ISE), solely comprising companies highly committed to sustainability and social responsibility.

TIM Participações undertakes the corporate reorganization of its subsidiaries by the merger of TIM Nordeste S.A. with TIM Celular.

2010

MAY

Re-launch of the Intelig brand with the media campaign "*Intelig agora é TIM*" (Intelig is now TIM).

JUNE

TIM takes top ranking in market share in the long-distance segment, overtaking traditional competitors in the industry.

AUGUST

Launch of the *Infinity Web* and *Liberty Web* data plans, which provide unlimited internet access to pre-paid and post-paid account users, respectively.

OCTOBER

Elected the best mobile operator in Latin America at the World Telecommunication Awards 2010, the award granted by British magazine *World Finance*.

2011

FEBRUARY

Launch of *Infinity Torpedo*, the first offer for pre-paid customers focused on unlimited communication for its own and/or other users.

JULY

TIM signs an agreement to build a fiber optic backbone in Brazil's northern region, expanding the operator's infrastructure.

TIM regains second place in market share.

AUGUST

Migration to the highest corporate governance segment, *Novo Mercado*.

OCTOBER

Conclusion of the process for acquiring Eletropaulo Telecomunicações Ltda. and AES Communications Rio de Janeiro S.A., along with Companhia Brasileira de Energia.

Closure of the initial public offering of shares, involving 200,258,368 common shares at a price of R\$ 8.60, totaling R\$ 1,722,221,964.80.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT TIM

TIM Participações S.A. is a listed company managed by a Board of Directors and a Board of Executive Officers, under the supervision of a Fiscal Council that also plays the role of Audit Committee. The duties and responsibilities of the members of the Board of Directors, the Board of Executive Officers and the Fiscal Council are determined by Brazilian legislation, in the company's bylaws, in the Regulations for Listing on the Novo Mercado segment, in the Internal Rules and Regulations of the Board of Directors and those of the Fiscal Council.

As active members and responsible for the community in which they operate, the company and its management must base their actions on three basic principles: transparency, honesty, and loyalty.

In conducting its business the company seeks: (i) transparency in its dealings; (ii) to foster fair competition; (iii) competitive excellence in the market; (iv) to serve the well-being and growth of the community in which it operates; (v) to value its human resources; and (vi) to promote sustainable development.

TIM is the only company in the telecommunications industry that belongs to the select group of companies comprising the following portfolios of BM&FBOVESPA: Differentiated Corporate Governance Index (Brazilian acronym, IGC), The Differentiated Index of Shares with Tag Along (ITAG), and the Carbon Efficient Index (ICO₂). We are also in the Corporate Sustainability Index (ISE) and in 2011 the company joined the Novo Mercado segment (see more in the box), both of which belong to the BM&FBOVESPA.

DISCLOSURE POLICY

In 2002, TIM Participações adopted a Policy on Disclosure and Use of Information and Securities Trading under the terms of the stipulations of the Brazilian Securities Commission (CVM), which the company's management adopted by signing an instrument of adherence. As part of this policy, a code of conduct was established, which all employees with access to inside information must abide by, in addition to imposing restrictions on trading in the company's securities during certain periods.

THE ONLY TELECOMMUNICATIONS COMPANY IN THE NOVO MERCADO SEGMENT

Since July 2011 we are the only Brazilian company from the telecommunications industry to be listed on the *Novo Mercado* segment of the BM&FBOVESPA. Joining this segment has aligned the interests of our majority shareholder and our minority shareholders regarding voting rights, tag along¹, and dividend policies.

At the same time, joining the *Novo Mercado* segment means our shares rise in value and enjoy greater liquidity, providing wider access to the international markets, strengthening our institutional image and boosting trust in our company, in addition to reiterating the long-term commitment of the Telecom Italia group to its Brazilian operations.

¹ Tag along is contemplated in Brazilian legislation (Brazilian Company Law, Article 254-A) and ensures that direct or indirect divesting of a company's shareholder control can only take place on the condition that the acquiring shareholder agrees to make a public offering for acquisition of the other common shares, ensuring those holding these the minimum price of at least 80% of the amount paid to the controlling shareholder group. In the case of companies pertaining to the Novo Mercado segment, 100% of the amount paid to the controlling shareholders is assured.

BOARD OF DIRECTORS

The Board of Directors is a collegiate body responsible for managing the company at the highest level, comprising a minimum of five and a maximum of 19 members, with a two-year term of office, reelection being permitted. Currently, the Board of Directors is composed of nine members, three of whom are independent, including in this category the Chairman of the Board.

All decisions taken by the Board of Directors are recorded as minutes, which are published and registered in the Book of Minutes of the Board of Directors and filed at the company's headquarters.

The Board meets ordinarily once every quarter and extraordinarily when summoned by its Chairman, by any of the Directors or by the company's Chief Executive Officer. The Chairman of the Board can invite any member of the Board of Executive Officers and other company executives to participate at Board meetings. Outsiders who might contribute opinions or recommendations involving the subject matters on the agenda can also be invited – but with no voting rights.

The Board of Directors also has two advisory committees whose role is to make recommendations: the Compensation Committee and Internal Control and Corporate Governance Committee. Both are composed of the Board's own members.

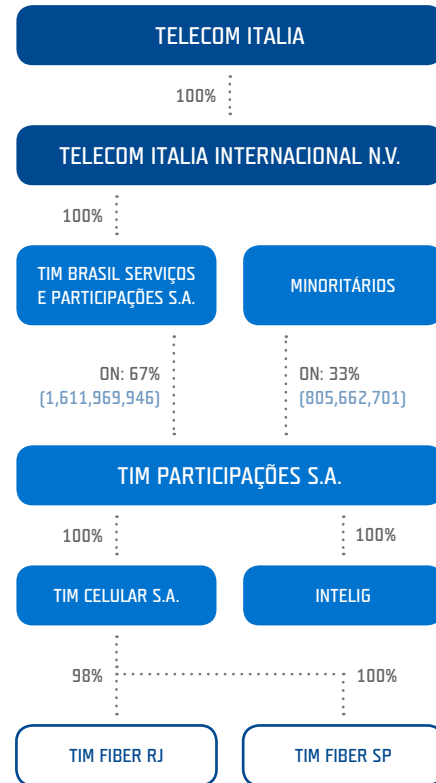
BOARD OF EXECUTIVE OFFICERS

Composed of at least two and a maximum of nine Executive Officers, the Board of Executive Officers is the body that represents the company and manages it on a day-to-day basis. The Executive Officers are elected by the Board of Directors, which can also remove them from office at any time. The term of office is two years, with reelection permitted. Currently the company's Board of Executive Officers is composed of nine members.

FISCAL COUNCIL

The Fiscal Council is the body that supervises the acts of the company's management and the information to shareholders. At TIM, the Fiscal Council accumulates the functions of the Audit Committee, and is therefore structured to oversee the audit work undertaken within the company and analyze the effectiveness of the internal control systems. It is also responsible for the Complaints Channel, the system whereby anyone can report facts that might require investigation by the company. Installed and operative since 2004, the Fiscal Council comprises a minimum of three and a maximum of five members, all independent professionals acknowledged by the market and who have no other relationship with the company.

SHAREHOLDERS STRUCTURE



At the end of 2011, the company's equity totaled R\$ 9,886,886,593.46, represented by 2,417,632,647 common shares. TIM Brasil Serviços e Participações S.A. is the controlling shareholder of TIM, with 67% of the stock.

DIVIDEND POLICY

In accordance with the bylaws of TIM Participações, the company must distribute as mandatory dividends for each fiscal year ending December 31 an amount equivalent to 25% of the adjusted net income, provided cash is available for distribution.

It is mandatory to maintain a legal reserve to which the company must allocate 5% of the net income of each fiscal year, until the balance of this reserve reaches the equivalent of 20% of equity. The annual distribution of dividends is voted at the General Shareholders' Meeting.

SARBANES-OXLEY LAW

Section 404 of the Sarbanes-Oxley (SOx) Law provides for external assurance by the company regarding the effectiveness of its internal control systems that support the financial statements, in order to afford this information greater reliability and transparency. To obtain this certification, the management's evaluation of the internal controls for the fiscal year of 2008 was vouched for by a specialist independent auditing institution.

In 2011, TIM received certification for its compliance with the provisions required under Section 404 of the Sarbanes-Oxley Law for the year 2010, a demonstration of the company's commitment to the highest levels of corporate governance.

RISK MANAGEMENT

Our business may be adversely affected if we are unable to successfully implement our strategic objectives. Factors within and beyond our control may prevent us from successfully implementing our strategy. That is why we use a series of processes to make sure these risks are identified, assessed, and mitigated.

TELECOM MARKET RISKS

COMPETITION

We are facing growing competition and this may affect the results of our operations. The deregulation of the Brazilian market in telecommunications services has adversely affected the industry's historical margins.

Our ability to compete successfully depends on the effectiveness of our marketing and our ability to anticipate and react to the competitive factors affecting the industry, including new services that might be introduced, changes in customer preferences, demographic trends, the economic situation, and the pricing and discount strategies of our competitors.

SERVICE QUALITY

We believe that, among other things, our expectations for growth require us to:

- continuously develop our operational and administration systems;
- enhance our activity involving marketing, IT and the network;
- attract, train and retain highly-qualified, technical managers, in addition to maintaining relations with customers and the sales force.

We believe that these requirements account for a significant demand on our managerial, operational and financial resources. As a result, a large share of our investments (approximately 90%) has been channeled to infrastructure (networks and information technology). Furthermore, our staff development strategy is now in line with our requirements for technical and managerial training to manage these risks.

TECHNOLOGICAL CHANGES

The cellular telephony market in Brazil is experiencing significant technological changes, witness:

- the changes in the regulatory environment;
- the shorter periods between the introduction of new telecommunication products and the need to upgrade or replace them, as in the case of 3G technology;
- the constant improvements in the capability and quality of the digital technology available in Brazil;
- and the bidding process for granting operating licenses for the 2.5 GHz and 3.5 GHz (WI-MAX) bands with limited mobility.

Therefore our success partly depends on our ability to remain one step ahead and to adapt in good time to technological change. The advent of new products based on these technologies may adversely affect us if we are incapable of upgrading and enhancing our portfolio.

Against this backdrop, the company's marketing actions, information technology, and network are fundamental in identifying the technologies of the future, evaluating the best options and developing innovations that sustain and enhance the interests of our current and future customers.

FINANCIAL RISKS

Through its subsidiaries (TIM Celular S.A. and Intelig Telecomunicações Ltda.), TIM employs derivative financial instruments purely for the purpose of reducing the risks associated with currency and interest rates and exchange rate variations, for non-speculative purposes, represented in their entirety by swap agreements. A rundown of the principal risks factors to which the company is exposed is given below.

EXCHANGE RATE FLUCTUATION

These risks involve the possibility of our subsidiaries incurring in losses derived from fluctuations in currency rates, increasing the outstanding debt balance of financing obtained in the market and the attendant financial expenses. In order to neutralize these kinds of risks, our subsidiaries enter into swap agreements with financial institutions.

INTEREST RATE RISKS

Interest rate risks refer to variances in the fair value of credit lines at fixed rates of interest or in long-term interest rates (Brazilian acronym, TJLP), in addition to adverse mo-

vements in floating interest rates. These risks are mitigated through interest rate swap agreements, coupled with investments linked to interbank certificates of deposit (Brazilian acronym, CDI).

CREDIT RISK INHERENT TO PROVIDING SERVICES

This risk involves the possibility that our subsidiaries may incur in losses arising from difficulties in collecting the amounts invoiced to subscribers. In order to reduce this type of risk, our subsidiaries carry out credit analyses, assisting in managing the risk involved when payment problems arise, while monitoring subscriber accounts receivable and blocking the ability of those in default to use the services. Furthermore, the company's strategy of sharply reducing subsidy levels on handsets and alliances with credit card operators involving more extensive installment plans have also contributed to reduce this type of risk.

CREDIT RISK INHERENT TO SELLING HANDSETS AND PREPAID TELEPHONE CARDS

The policy of the subsidiaries in selling handsets and distributing prepaid phone cards directly reflects the levels of credit risk accepted during the normal course of business. The selection of partners, a diversified portfolio of accounts receivable, the monitoring of loan conditions, positions and order limits established for storeowners and the constitution of real collateral are the procedures the subsidiaries adopt in order to minimize possible problems in collecting from their business partners.

FINANCIAL CREDIT RISK

The risk here involves the possibility of our subsidiaries incurring losses arising from problems in redeeming short-term financial investments and swap agreements because of counterparty insolvency. The subsidiaries keep the risk associated with these financial instruments to a minimum by operating only with financial institutions whose soundness is acknowledged by the market, in addition to abiding by a policy that determines maximum levels of risk concentration per financial institution.

SOCIAL AND ENVIRONMENTAL RISKS

TIM has identified environmental risks due to the National Policy on Climate Change, which may also affect the telecommunications industry.

TIM believes its presence in all Brazilian states may be affected in the event the predictions surrounding climatic events come to pass, interfering in its business activity and leading to possible physical risks:

- Higher consumption of electricity to maintain network equipment at the appropriate temperature;
- Higher energy costs and supply-side rationing;
- Shortage of renewable energy sources;
- Influence of humidity and salinity on the useful life of the equipment;
- Adverse impact on mobile telephone signals in the event of higher rainfall levels;
- Adverse financial impact due to higher insurance prices involving natural disasters;
- Impact on employee health and well-being;
- Loss of income by consumers;
- Interruptions or deterioration in telecommunication services due to possible environmental catastrophes affecting the network infrastructure.

TIM carried out the Environmental Risk Prevention Program (PPRA) and the Occupational Health Medical Control Program (PCMSO), also taking into account the activities of the Customer Relationship Center (CRC). In addition, we held the Internal Workplace Accident Prevention Week (Sipat) and set up the Internal Accident Prevention Committee (Cipa).

ECONOMIC AND SECTORIAL OVERVIEW

ECONOMIC ENVIRONMENT

In 2011, the world economy experienced the results of the fiscal crises in the United States and Europe. After overspending in an attempt to rescue their economies from the recession of 2008, developed countries saw their accounts severely compromised and were forced to slow down their economic growth as a result. In the case of Brazil, unlike in 2010 where the impact on growth was minimal, 2011 was also a year of deceleration. Nevertheless, the domestic market remained strong, with consumption maintaining the pace shown in recent years, which has been reflected in inflation as well.

Official inflation in Brazil, as per the Expanded Consumer Price Index (IPCA), ended the year up by 6.5%, the highest rate since 2004. The figure exceeded the Central Bank target (4.5%), at the upper end of the band of 2% considered acceptable by the government. In spite of the inflationary pressure, the Central Bank has already initiated an expansionist monetary policy, betting that the global slowdown will be enough to limit inflation increase.

Regarding the Monetary Policy, the Monetary Policy Committee (Copom) experienced two periods in 2011. At the beginning of the year, when inflation was causing more alarm than the economic slowdown, the Central Bank kept the contractionist monetary policy initiated in 2010, raising the benchmark interest rate (Selic) from 10.75% p.a. to 12.50% p.y.

From August onwards, however, with the deterioration of the global economic crisis, the Central Bank concerns turned to domestic production growth, leading to an expansionist monetary policy which reduced Selic rate by 150 bps, ending 2011 at 11% p.a..

In the case of domestic demand, given the record low unemployment rate, higher salaries, better credit conditions and economic recovery, economists have predicted that the growth in family consumption is likely to continue. Gross Fixed Capital Formation should grow due to higher industrial production.

Brazil's current account ended the year with a deficit of US\$ 52.6 billion, or 2.12% of GDP, exceeding the result for 2010 when the deficit totaled US\$ 47.3 billion. 2011's result was the highest since the Central Bank began keeping these statistics in 1947. The main drivers were the services account, primarily international travel and profit remittances. On the other hand, foreign direct investments totaled US\$ 66.7 billion, a record, offsetting the capital outflow from the current account.

The exchange rate was also marked by two distinct periods. During the first six months, strong currency flows topped the price of the US currency, taking it down to levels that had not been seen since 1999. However, from August onwards, the global crisis deterioration drove investors to take refuge in the security of the dollar, which has appreciated rapidly. At the end of the year, the dollar was up by 12.6%, quoted at R\$ 1.88.

Affected by the increase of 37.4% in foreign direct investment, the balance of payments for 2011 showed a surplus of US\$ 58.6 billion. This represents an increase of 19.4%, when compared to the surplus of US\$ 49.1 billion recorded in 2010.

After higher spending in 2010, influenced by the election year, the government surplus returned to higher levels. In 2011, the accumulated surplus was R\$ 93.5 billion against the R\$ 78.8 billion accumulated in 2010, an increase of 18.7%. In relation to GDP, government expenditures went from 2.15% in 2010, to 2.28% in 2011.

According to the Central Bank, the total volume of credit in the financial system grew by 19.0% in 2011, representing 49.1% of GDP. The previous year, annual growth was 20.6%, or 45.2% of GDP.

THE TELECOMMUNICATIONS INDUSTRY

For the telecommunications industry, 2011 was a more positive year compared to the previous one, when the economy was still feeling the effects of the global crisis. The number of net additions in all services was greater than that of 2010. Although the mobile telecom market now shows high levels of penetration, in 2011 the level of net additions took the market by surprise. The mobile segment ended the year with 242.2 million accesses, representing annual growth of 19.3%, totaling 39.3 million new lines, according to Anatel.

The Brazilian mobile telephone market is the fifth largest in the world, and in 2011 showed a penetration rate of 123.9 lines for every 100 inhabitants. Cell phones are now established as the means of communication with the greatest presence in Brazilian homes, in all social classes, due especially to promotions in the market where the focus is on calls from and to the same operator.

Most of the growth continues to be the pre-paid segment, which totaled 198.2 million accesses (+18.6% YoY), representing 81.8% of the total market. The post-paid account segment reached the 44.1 million lines mark, growth of 22.9% YoY. The key factors behind the growth in both sectors were the favorable economic scenario, with more credit, better income distribution (with part of the population migra-

ting from D and E classes to the C class), and competition in the Brazilian cell phone market.

According to Anatel, the landline telephone industry had a slight growth of 2.1% over the previous year, ending the period with 42.9 million accesses, which represents a penetration of approximately 22 lines per 100 households.

PECULIARITIES OF THE INDUSTRY

Mobile telecommunications in Brazil is a private sector in which prices and tariffs are determined by the market. Anatel functions as the regulatory body for the entire telecom industry in Brazil, with the mission of “fostering the development of telecommunications in Brazil, to equip it with a modern and efficient telecommunications infrastructure capable of providing society with adequate and diversified services at fair prices throughout the country”.

The Brazilian mobile telephony market has experienced a period of significant growth, with penetration levels growing month after month. We believe there is still sufficient room to increase the customer base, especially considering that the penetration figures published by Anatel do not strip out the existence of multiple lines per user and the number of non-human (machine-to-machine) accesses – such as PoS (Points of Sales) and tracking services that use GSM SIM cards for data communication.

This scenario offers the opportunity to increase our customer base by developing a strong concept of a nationwide community within the TIM network. Due to the *Liberty* and *Infinity* plans, whether through innovative offers or exclusive services or products, we have strengthened communication within the network, regardless of whether the call is local or long-distance. This strategy produces a knock-on effect, whereby customers help to call other customers, strengthening their bonds with the company and operating as a type of loyalty system without incurring high costs.

The Brazilian mobile telephony sector is one of the world’s most competitive, as well as being one of the few with four competitors with a nationwide presence and market share of between 20% and 30%. The strong competition in the market implies greater pressure on margins because of selling expenses like advertising, publicity, commissions, and subsidies. Subsidies as a competition tool are being gradually abandoned by the operators, clearing the way for offers that are more focused on using the service. The recent movement has enabled average tariffs to fall, which is being offset by higher usage levels. TIM speed up this process in 2011, practically abandoning the tool of subsidizing handsets, refocusing on encouraging usage.

The intensive use of capital is also a prime feature of the telecommunications industry. In order to support higher traffic on the network over the years, significant investments are needed in technology and infrastructure to ensure scale and quality of services rendered.

As a provider of a service that is key to Brazil’s socioeconomic development, TIM strongly believes that Brazil is consolidating its high-profile position on the global economic scenario, and we are pleased to contribute to development of the country’s infrastructure and to promote the universalization of telecommunication services. In 2011 TIM reiterated its commitment to investment and to the endless pursuit of more and better services that fully address the requirements of all stakeholders.

INDUSTRY REGULATION

The telecommunications industry is subject to regulation by the National Telecommunications Agency (Anatel), a special semi-governmental entity subordinated to the Ministry of Communications, with has an independent management structure. Anatel is responsible for defining the rules applicable to telecommunications services and to relations between different operators, according to provisions of the General Law of Telecommunications (Law 9.472, of July 16, 1997).

Specifically regarding the operations of TIM, Intelig, and TIM Fiber, Anatel has produced strict regulations on mobile communications services (Personal Mobile Service – SMP), landlines (Commuted Fixed Telephone Service – STFC), and data transmission (Multimedia Messaging Services – SCM).

Given the huge dynamism of the industry, especially due to the growing technological advances enjoyed by the service providers, primarily within the SMP environment, the rules issued by Anatel are subject to periodic updates.

In order to share the planning of its actions with the public and optimize the enforcement of government policies, Anatel approved the General Plan for Updating the Regulations for Telecommunications in Brazil (PGR, of Resolution No. 516/2008). In PGR, Anatel lays out the short-, medium-, and long-term actions, respectively defined for 2, 5, and 10 years.

This process of adapting the rules considers technical analyses by specialist departments within Anatel and discussions arising from public consultations, by means of which the proposals to update the regulations are discussed between Anatel, the government, and society in general. This is always closely followed by TIM.

The publication of the Presidential Decree No. 7.512 from June 30, 2011, laid out even more important milestones for the industry, such as the bidding process for fourth-generation radio frequencies; the bidding notice is currently undergoing public consultation. It is also worth noting the stipulation of quality targets for broad band services, which implied new regulations for SMP and SCM, allocating quality parameters to landline and mobile broad band services. This is currently in the implementation phase through a group comprising companies and Anatel, and its full adaptation will require further investments.

THE RADIOFREQUENCY SPECTRUM

TIM holds authorizations for right of use of radiofrequencies for providing SMP in the 800 MHz, 900 MHz, 1.8 GHz and 1.9/2.1 GHz frequency ranges, enabling it to provide mobile communication services using 2G and 3G technologies throughout Brazil.

In October 2010, Anatel opened the Invitation to Tender No. 002/2010-PVCP/SPV, which auctioned the H sub-range (1.9/2.1 GHz – 3G range) and remnants of 1.8 GHz (2G) ranges. Due to impediments defined by Anatel involving the limits for holding radiofrequencies, the current SMP providers operating in the 1.9/2.1 GHz range were not admitted to the H sub-range auction.

The fact that current SMP providers were excluded from participating in the H sub-range auction enabled Nextel to obtain 3G national cover and a 2G presence in Region I of the PGA, at a total investment of R\$ 1,421.3 million.

In December 2011, Invitation to Tender No. 001/2011-PVCP/SPV began, involving the remnants of the aforementioned auction. Sixteen blocks were acquired in the 1,800 MHz range by the operators Claro, Oi, CTBC and TIM, which acquired the largest volume of MHz at the lowest premium.

As a result of having participated in the invitations to tender, and with an investment of R\$ 65 million in the auctions (involving the auction in December 2010 and the expected investment of R\$ 80.7 million regarding the December 2011 auction), TIM will be able to extend its 2G cover and strengthen its presence in the northern and mid-western regions

of Brazil, in the states of Paraná, Espírito Santo, Rio Grande do Sul, Santa Catarina, and Minas Gerais, regions that have experienced strong economic growth.

In January 2012, a public consultation was published dealing with the invitation to tender for the 450 MHz and 2,500 MHz ranges, whose aim is to introduce the so-called fourth-generation technology in Brazil. This is done in preparation for the FIFA World Cup and the Olympic Games and to develop cover in rural areas – widely differing objectives, dealt with from the point of view of a joint invitation to tender according to the Public Consultation Notice on the part of Anatel.

VU-M AND THE WHOLESALE MARKET

Interconnection between telecommunications service providers is mandatory, enabling users of different telecommunication services of a collective nature (especially STFC, SMP and Specialized Mobile Service – SME) to originate and terminate calls among different provider networks.

In the case of SMP, Anatel has stipulated that whenever their network is used to originate or terminate calls, the providers will be entitled to receive the Value for Use of the SMP Network (VU-M) freely agreed to between the related parties.

In the scope of its participation in the Invitation to Tender No. 002/2007/SPV, which granted it authorizations to use radiofrequencies in the 3G sub-ranges, Anatel ordered TIM to adopt a single VU-M per Region of the General Plan of SMP Authorizations – PGA, with effect from November 1, 2010, freely agreed to between the providers (Instruction No. 8.849/2009-CD).

In October 2011, Anatel approved Resolution No. 576/2011, which proposes a mechanism to reduce the fees for landline-to-mobile calls of the STFC (VC-1) concessionaires, by applying a reduction factor of 18%, in February 2012; 12%, in 2013; and 10%, in 2014 (should the cost-based model not be implemented) over the Telecommunication Services Index – IST. In effect, this lowering of VC-1 tariffs was to be accompanied by new negotiations aimed at an agreement on the VU-M, possibly followed by an Anatel-led arbitration process whose criterion as defined in the mentioned regulations states that the full amount of the nominal reduction in the VC-1 will be passed on to the VU-M.

In the opinion of TIM, the ideal solution for the VU-M would be a cost-based model. Nevertheless, Anatel has been working on implementing it since March 2005, following the publication of Resolution No. 396/2005, which approved the Document for Separating and Allocating Accounts – DSAC with a view to establishing a price over STFC and SMP interconnections, as well as wholesale market inputs, especially dedicated lines (EILD) and unbundling.

Continuing with the process for its actual implementation by Anatel, at a bidding process held in August 2011 in cooperation with the International Telecommunications Union -

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MOBILE TELEPHONE
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FOR EVERY 100
INHABITANTS.**

ITU, a consortium was retained led by consulting company Advisia. The purpose of this arrangement is to develop optimized cost modeling for conclusion within two years, which will be the basis for all models to be used by the agency, especially for setting tariffs and the prices of inputs inherent to telecommunication services.

The optimized implementation of the costs model was one of the short-term targets stipulated in the PGR, whose conclusion had been expected for October 2010. However, its technical complexity would indicate that Anatel will only effectively use it in 2014.

At the same time, Anatel approved Public Consultation No. 50/2010 at the end of December 2010, proposing in-depth changes to the market for *Exploração Industrial de Linhas Dedicadas – EILD* (Industrial Exploitation of Dedicated Lines), governing the mechanisms for optimizing the operational structure of contracting transmission circuits, in order to increase the transparency of the contracting costs and permit equal treatment of the independent service providers of concessionaire groups.

Public Consultation No. 50/2010, still under analysis by the Board of Executive Officers of Anatel, which was available for comments until March 18, 2011, was the starting point for the discussions regarding enhancement of the wholesale market, and which are likely to culminate in the publication of the General Plan of Competitive Targets – PGMC, the subject matter of Public Consultation No. 41/2011 which consolidated over one thousand contributions.

The PGMC is likely to bring a combination of rules for regulatory asymmetry, especially in the EILD (transmission infrastructure) market, in order to afford greater competition in retail markets and an equal playing field in the wholesale landline market, enhancing the regulatory model supported by defining Significant Market Strength – PMS in the relevant markets taken into account.

MIGRATION OF MOBILE NETWORKS WITH ANALOG TECHNOLOGY

In February 2011, Anatel approved Resolution No. 562/11, altering the provision in the Regulations for Conditions of Use of Radiofrequencies, stipulating that after a period of 360 days from the date of publication, analog technology would no longer be permitted in certain sub-ranges of 800 MHz radiofrequencies.

Regarding the use of those radiofrequencies, TIM no longer has any subscribers using analog technology (AMPS). However, TIM's networks that use analog technology are currently being used by STFC concessionaires, so as to serve part of their subscribers located in rural areas of Brazil, a service referred to as RuralCel.

The RuralCel service was implemented by companies of the Telebrás System prior to the privatization process of 1998. After these companies were privatized, all that remained at that time were SMC providers to maintain infrastructure sharing (mobile networks with analog technology) with the STFC concessionaires who had rural subscribers. There is an ongoing discussion with the STFC concessionaires about the value of making the support network available to RuralCel.

Although shutdown was initially expected, in 2008 Anatel decided to postpone the date, firstly to February 2012, and more recently to an indeterminate date. Thus TIM continues to discuss with the regulatory body in order to reach a definitive decision regarding the decommissioning of its analog technology mobile networks.

QUALITY REGULATIONS

Published by Anatel in October 2011, the Quality Management Regulations for SMP and SCM impose quality parameters that must be adopted by providers of mobile telephone and internet connection services, usually within 12 months.

These quality parameters include those involving the quality of both mobile and landline networks, creating obligations to guarantee minimum and average speeds at much superior levels to those currently practiced by providers. In the short term, this will require investments if these obligations are to be met.

Given the need to have a better quantification of financial impacts, the Oi Group filed a motion for annulment together with a request for review of certain indicators. The objective of the operator is to require Anatel to produce the technical and economic impact studies that led to the publication of these regulations.

This request was submitted to Public Consultation by Anatel, resulting in a series of offers against maintaining the quality metrics by those telecommunication service providers affected. The offers are now under review by the Agency.

CONSOLIDATION OF THE STFC LICENSES OF TIM AND INTELIG

Following the takeover of Intelig by TIM (a transaction approved by Anatel under Act No. 4.634/2009), and in order to comply with current regulations, the TIM Group was forced to eliminate the overlapping licenses that existed (both TIM and Intelig hold SFTC licenses in their modalities: local, domestic long distance – LDN and international long distance – LDI).

To that end, a time frame of 18 months was established, effective from the date when the transaction was closed (Act No. 5.470/2010). This deadline was extended for an additional 12 months (Act No. 4.559/2011), expiring June 30, 2012.

In the same vein, on November 30, 2011 the TIM Group filed submissions at the Agency to formally consolidate its Local STFC Terms of Authorization at Intelig, and the consolidation of its LDN and LDI STFC Terms of Authorization in the case of TIM. As a result of this change, on June 30, 2012 the TIM Group will return CSP 23 to Anatel, while the STFC LDN and LDI operation continues to be linked to CSP 41 under the STFC LDN and STFC LDI license of TIM, with Intelig continuing to hold the local STFC license.

IMPLEMENTATION OF THE NINTH DIGIT IN REGISTRATION AREA 11

In December 2011, Anatel published Resolution No. 553/2010, determining, among other measures, the inclusion of an additional digit to the access codes of cell phones in Registration Area 11, which covers the capital of São Paulo state and its metropolitan area. Anatel's decision to add a digit to mobile telephone numbers in area 11 aims to increase the availability of numbers in the São Paulo metropolitan area, from 37 million to 90 million, since the rate of growth of the subscriber base would mean that no numbers would be available as of the beginning of 2013. The ninth digit will eliminate the problem of a shortage of numbers. Implementation of the ninth digit is expected to commence on July 29, 2012. The change will mean that users will have to add the number 9 to the left of the current numbers, thereby creating the following format: 9xxxx-xxxx.

This measure will require the public to make adaptations to private systems and equipment, such as PABX equipment and address books, as well as technical adaptations by the telecommunication services providers. Working groups

have been set up within the technical, communication and regulatory scopes, comprising representatives of all SMP and STFC providers, so that the implementation of the ninth digit is synchronized at all service providers, using standardized communication to avoid doubts and impacts on users as much as possible.

After July 29, 2012, calls dialed using 8 digits will still be completed for a period of 90 days, to enable networks and users to adapt. Gradually the calls will be intercepted, with users receiving messages instructing them to dial the new number. After this transition period, calls to 8-digit numbers will no longer go through.

The deadline for implementing the ninth digit in other Registration Areas will be defined later by Anatel.

TIM'S STRATEGY

During 2011 our strategy was consistent, coherent and original. The more intense search for innovative solutions and the appeal to simplicity in response to market demand enabled the company to catch the three waves of growth in the Brazilian market: (i) growth in the customer base; (2) growth in the use of voice services, and (3) growth in the use of data services.

The strategies for exploiting each growth wave focused primarily on balancing growth and profitability, in addition to exploiting the phenomena inherent to the Brazilian market, such as the rising middle class, the substitution of landlines with mobiles and the demand for mobility and web access services.

GROWTH WAVE #1: EXPANDING THE COMMUNITY

Creating and developing a community concept is essential for the customer base growth to occur jointly with the value perceived in being a part of it. This perception molds the relationship between users and the company, creating a virtuous circle when capturing new customers.

Using this basic principle, we built a commercial approach with attractive and segmented offers, with optimized capillary distribution for each type of service, and we strengthened the attributes of the brand in the search for satisfaction through higher quality.

The result was a YoY expansion of 26% in the customer base and a community of more than 64 million users who increasingly benefit from its size.

GROWTH WAVE #2: SUBSTITUTING LANDLINES WITH MOBILES

The substitution of landlines with mobiles is a global phenomenon that is becoming stronger in Brazil, given the greater appeal that mobility presents, whether because of the convenience or, as in the case of Brazil, lower prices as well. This phenomenon is driving user and traffic migration from landline to mobile networks, and represents a huge threat to integrated/convergent operators (landline and mobile services), presenting a huge window of opportunity for operators with a purely mobile approach.

Our strategy sought to speed up this trend and to leverage on the concepts of unlimited monthly use (*Liberty* post-paid account plan) or per-call charging (*Infinity* pre-paid plan), creating real benefits for users while also consolidating new revenue sources such as long-distance calls.

The result was an increase of 39% YoY in total traffic minutes and 19.1% YoY in gross revenues from outgoing voice calls.

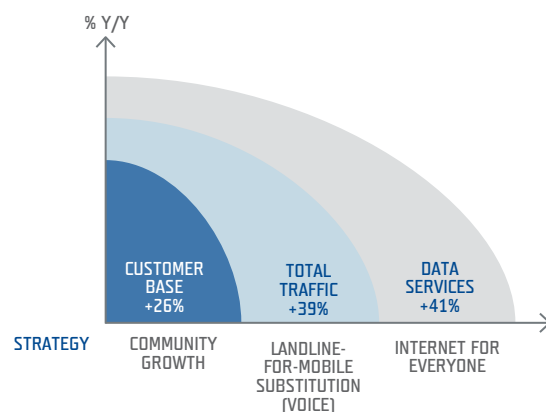
GROWTH WAVE #3: INTERNET WITHIN EVERYONE'S REACH

Providing the opportunity for everyone to connect to the digital world through the Internet is one of Brazil's largest challenges, especially in light of the fragile landline networks of utility companies. Within this context, mobile data services are the most efficient solution, and by taking advantage of this, TIM defined its strategy to encourage the use of data services on mobile devices. The launch of *Liberty Web* and *Infinity Web*, which encourage the use of smartphones, tablets or mini-modems, is a direct response to the repressed market demand for these services.

To support this strategy, the company invested in infrastructure to meet the spiraling growth of data traffic with projects dedicated to expand the metropolitan and long-distance access networks through acquisitions or in-house developments. In addition, encouraging the acquisition of data-enabled devices has been fundamental so that users adopting the new services encounter no barriers.

The results of this strategy led to growth in smartphone penetration of the customer base, from 10% to 27%, in addition to 41.3% higher revenues from data services.

Based on innovation, convenience and quality, the central tenets to the TIM strategy, the company achieved its objectives in 2011, creating value for shareholders, customers and all stakeholders. In 2012, the company is expecting even greater challenges, which will in all certainty be overcome due to the energy of its employees in getting things done and the strength of the TIM brand.

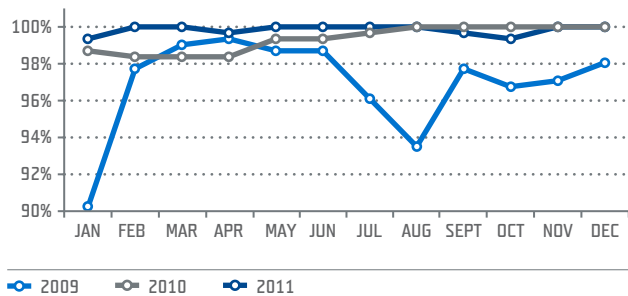


INVESTMENTS AND PERSPECTIVES

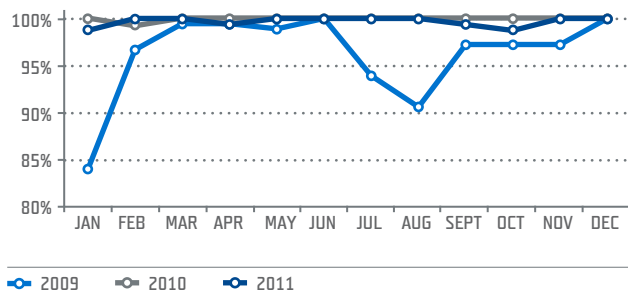
In 2011, TIM intensified its investments in support of its strategy which is heavily based on encouraging the use of voice and data services, in addition to striving for excellence in the quality of these services and the support provided to its customers. The (organic and inorganic) investments totaled approximately R\$ 4.6 billion.

The results obtained by these investments were evidenced by having achieved the total and network quality targets stipulated by Anatel. As the charts below show, in 2011, where total quality is concerned, we attained an average of 100% of fulfillment of targets, compared to 99% and 97% in 2010 and 2009, respectively. Regarding network quality, the average for 2011 was 100%, like in 2010, having attained 96% in 2009.

ANATEL - TOTAL QUALITY



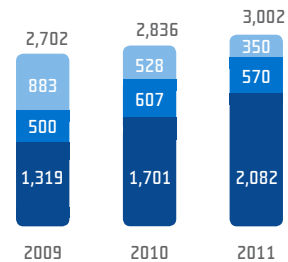
ANATEL - NETWORK QUALITY



This performance stands for TIM's commitment of providing a service of excellent quality, even with strong growth in voice and data traffic over the same period.

In 2011, organic investments totaled R\$ 3,002 million (3.0 billion), accounting for 17.6% of net revenues, with a 5.9% increase. Taking the network alone, investments rose by 22.4% YoY primarily. Investment in infrastructure technology (network + IT) amounted to 88% of the total (against 81% in 2010), as per the chart below.

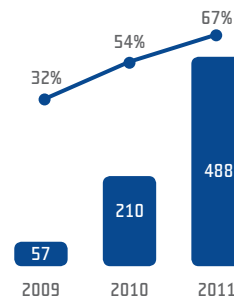
ORGANIC INVESTMENTS



COMMERCIAL
IT
NETWORK

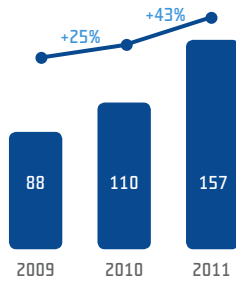
Accounting for 69% of organic investments, the network was the major focus in 2011. The investments made were intended to increase voice (TRX) and data (Node-B) capacity, 3G coverage and information transmission at the metropolitan network (backhaul) and long-distance network (backbone) level.

3G COVERAGE



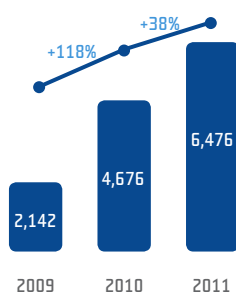
% URBAN POPULATION COVERED
CITIES

2G CAPACITY - VOICE



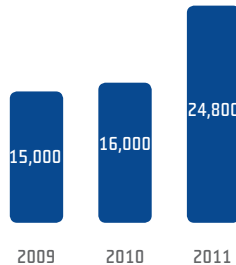
● TOTAL TRX
■ EOP

3G CAPACITY - DATA



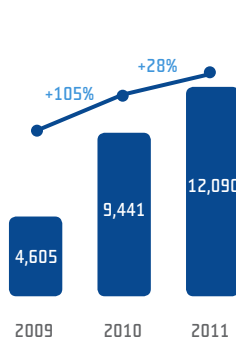
● TOTAL NODEB
■ EOP

LD BACKBONE IN FIBER KM



● URBAN POPULATION COVERED
■ CITIES

RADIO TRANSMISSION (MW) TOTAL MW



● GROWTH OF RATE
■ TRANSMISSION RATE

In terms of investment planning at TIM, two corporate events were fundamental: (i) inorganic investment from the acquisition of AES Atimus and (ii) the capital increase through a public offering.

ACQUISITION OF AES ATIMUS

In line with our commercial strategy of expanding the business and improving the company's infrastructure, our full subsidiary TIM Celular S.A., as the buyer, closed an agreement on July 8th with Companhia Brasileira de Energia ("Brasiliiana"), as seller, also involving AES Elpa SA ("AES Elpa") as intervening party, for the purchase of the entire equity of Eletropaulo Telecomunicações Ltda. ("AES Telecom EP") and the shares issued by AES Communications Rio de Janeiro SA ("AES Com Rio"), currently controlled respectively by Brasiliiana and AES Elpa ("Brasiliiana-TIM Agreement").

AES EP Telecom and AES Com Rio are suppliers of infrastructure and solutions for high-performance communication, and serve the major municipalities of the metropolitan areas of the states of Rio de Janeiro and São Paulo, covering a potential market of approximately 8.5 million homes and over 550 thousand companies in 21 cities through a fiber optic network of 5,500 kilometers.

The corporate amounts of the companies, as agreed to by the parties, are R\$ 1.128 million for the entire equity of AES EP Telecom and R\$ 473 million for the entire equity of AES Com Rio, to be adjusted for the net debt of both companies on the closing date, when the actual acquisition price of the abovementioned shares must be restated. We expect this transaction to result in savings in Opex / Capex of R\$ 1.1 billion at present values.

On October 31st, given the compliance with the conditions precedent contained in the Purchase Agreement closed on July 8th, 2011 between TIM Celular SA and Companhia Brasileira de Energia, TIM Celular concluded the acquisition of the entire equity of Eletropaulo Telecom Ltda, for a total amount of R\$ 1,074 million and 98.26% of the equity of AES Comunicações Rio de Janeiro, for a total amount of R\$ 448 million.

As a result of the acquisition, the companies also changed their names to TIM Fiber SP Ltda. ("TIM Fiber SP") and TIM Fiber RJ SA ("TIM Fiber RJ"), respectively.

This transaction consolidates the business strategy of expanding the company's activities while strengthening its infrastructure.

PUBLIC OFFERING

On September 14th, TIM made a public offering consisting of 190,796,858 common shares, at R\$ 8.60 per share, raising a total of R\$ 1.64 billion.

The entire proceeds are intended for expanding and developing the network infrastructure, of which 40% for building fiber optic networks in the northern and northeastern regions (2G/3G access and data transmission); 20% to accelerate the expansion of third generation (3G) technology coverage; 20% to accelerate the expansion of the company's own metropolitan networks (from fiber optic projects, to antennae and micro waves); and 20% for new business (launch of the residential landline broad band in São Paulo and Rio de Janeiro, as well as advancing in the corporate market in that region).

Additionally, on October 24th, following the public offering, the stabilization agent informed us that the overallocation of 9,461,510 common shares (totaling R\$ 81.4 million) had been fully exercised for the sole purpose of attending to the excess demand detected in the public offering. On October 27th, TIM notified the market about the closure of the public offering, in which it raised a total of R\$ 1.722 billion by issuing 200,258,368 common shares.

PERSPECTIVES

Our strategic plan indicates tremendous business opportunities within the Brazilian market, enjoying an interesting position in the fixed-to-mobile substitution and the resulting remodeling of revenue distribution within the telecom market. In addition, we hope to exploit the huge growth opportunity in data services and mobile and fixed internet access.

This scenario will require continuous investment from the company. This is why TIM approved a R\$ 9 billion plan for the 2012-2014 period, with the main emphasis on infrastructure (approximately 90% of the amount). This plan envisages investment on several fronts, with priority for the following:

- 2G Network: maintaining the quality and growth in capacity by installing 60% of TRXs;
- 3G Network: accelerated coverage, exceeding 80% of the population covered in 2014;
- Wi-Fi Hotspots: installation of over 10,000 Wi-Fi hotspots to improve user experience in areas with large concentrations of population;
- Fiber-to-site (FTTS) project: construction of fiber optic backhaul in the 42 main cities of Brazil, besides Rio and São Paulo;
- Backbone projects: to complete the construction of long-distance network infrastructure, reaching approximately 50,000 kilometers of fiber optics by 2014;
- TIM Fiber residential broad band: to offer broad band services in Brazil's two largest metropolitan regions (Rio and São Paulo).

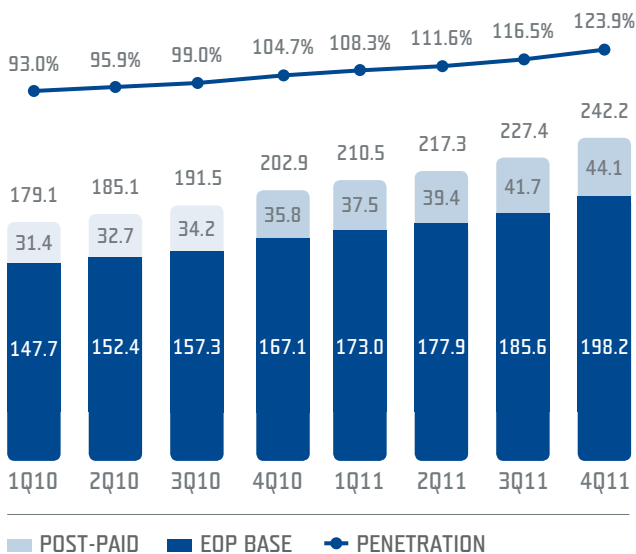
OPERATIONAL PERFORMANCE

OVERVIEW OF THE BRAZILIAN MARKET

The Brazilian mobile telephone market registered 242.2 million lines at the end of 2011, representing annual growth of 19.3% (against 16.7% at the end of the previous year) and a penetration rate of 123.9%, against 104.7% at the end of 2010.

Market growth has been driven by: i) encouragement of on-net calls (creating the effect of multiple SIM Cards for sales in the pre-paid segment); and ii) growing demand for data services, especially on smart/webphones.

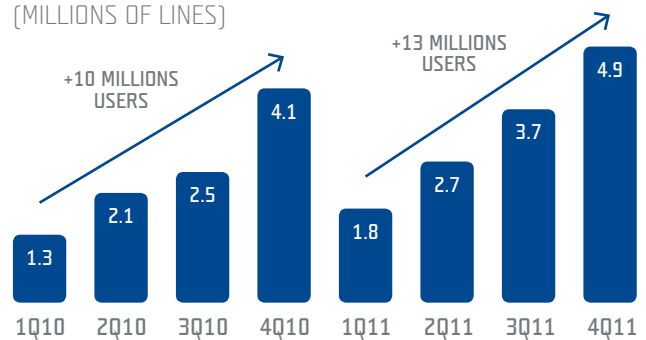
BRAZILIAN MOBILE TELEPHONE MARKET (MILLIONS OF LINES)



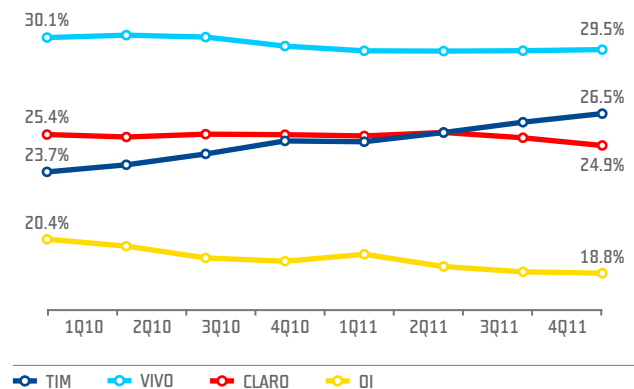
In 2011, the Brazilian mobile telephone market registered 39.3 million new net additions, a record for the entire year, beating the 2008 record and the 29 million net additions in 2010. On breaking the market down into the pre-paid and post-paid segments, the first grew by 31.1 million users (32.2% YoY), representing 79.1% of the total Brazilian market. Regarding the post-paid segment, in 2011 there were 8.2 million new net additions, a 49.7% increase over December 2010.

The total subscriber base ended the fourth quarter with 64.1 million lines, a 25.6% increase compared to the same period in the previous year, representing a 26.5% market share. Net additions in 2011 totaled 13.1 million lines (11.2 million in pre-paid and 1.8 million post-paid), becoming market leader in additions in the quarter, with a 32.7% participation in incremental market share and 43% in December. This consistent performance in market share of net additions meant that TIM was the only player to gain market share in 2011 (1.6 p.p.), confirming the *Infinity* and *Liberty* plans as the best option in the market.

TIM NET ADDITIONS (MILLIONS OF LINES)



TOTAL MARKET SHARE

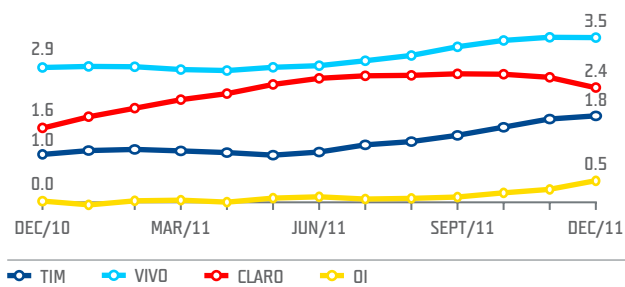


POST-PAID

The post-paid segment attained a customer base of 9.3 million users in December 2011, representing a 24.4% growth versus 15.7% in 2010. This growth can be attributed to the *Liberty* and *Infinity* voice plans, which ended the quarter with almost 70% of the post-paid plans of the base, leveraged by data plans (dongles).

Another reason for the sharply increase in the post-paid gross additions and for the lower churn can be seen in the Anatel indicators for SMP quality. In the SMP 11, which indicates problems for every 100,000 accounts issued, TIM stood out in December as the player with the lowest rate in the sector. This is a strong sign of the company's efforts to implement a pricing system that is transparent and simple, making the lives of its customers easier while strongly encouraging unlimited communication.

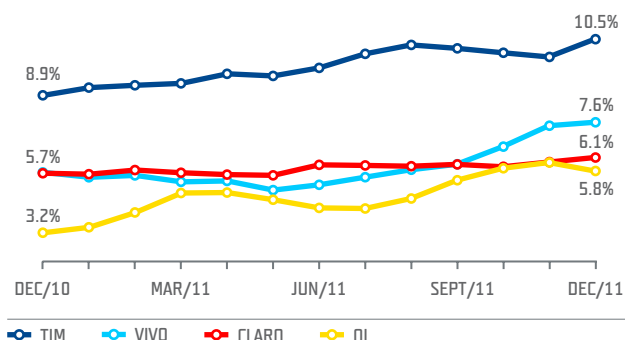
POST-PAID ADDITIONS - ACCUMULATED OVER 12 MONTHS (MILLION LINES)



PRE-PAID

In the pre-paid segment, total users totaled 54.8 million, an increase of 25.8% – leveraged mainly by the *Infinity Pre* plan, which reached 53 million users (97% of the base in that segment). TIM continues to drive growth in the pre-paid market segment, by consistently adding innovative plans and services to the *Infinity* concept (namely, *Infinity Torpedo*, *Infinity Web* and *Infinity Mais*), thereby remaining the best choice for customers in the market.

PRE-PAID ADDITIONS - ACCUMULATED OVER 12 MONTHS (MILLION LINES)



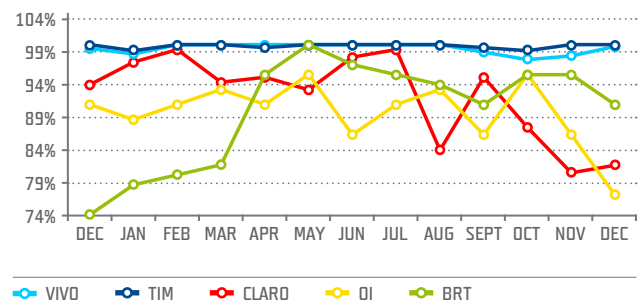
In terms of the figures for 2011, TIM recorded the greatest volume of gross additions, breaking the annual record for this index (39.8 million lines). This result represents a 39% growth over the previous year, driven primarily by the pre-paid segment.

Disconnections totaled 26.7 million for the year, with a churn rate of 47.9% versus 42.4% recorded in 2010. The slightly higher churn rate can be explained by a strict disconnection rule, in order to avoid unnecessary Fistel expenses amidst strong commercial activity, especially in the pre-paid side.

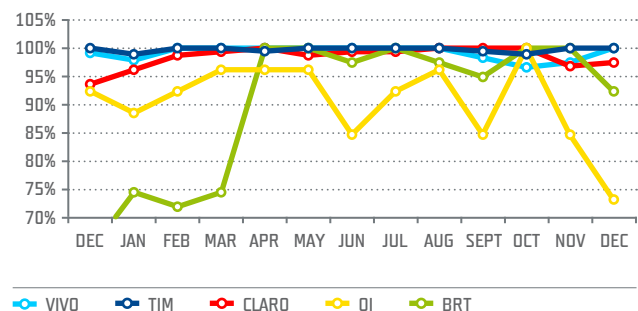
NETWORK & QUALITY

In spite of a continuous increase in traffic in recent quarters (+276% YoY), TIM retained the Anatel top spot in terms of quality, in the global and network quality indicators, and was the only player to achieve 100% in these indicators in eight of the last 12 months. This result strengthens TIM's commitment toward superior quality of service, while speeding up the fixed-to-mobile substitution (intensive MOU strategy) and offers involving data.

ANATEL GLOBAL SERVICE QUALITY INDICATOR



ANATEL NETWORK QUALITY INDICATOR

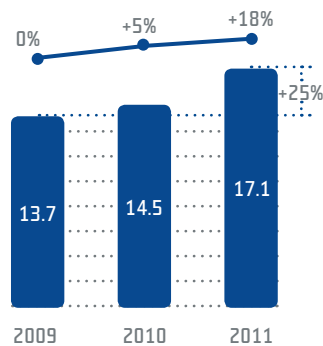


FINANCIAL PERFORMANCE

In 2011, the total gross revenue amounted R\$ 24,729 million, a 21.7% increase compared to 2010. The gross revenue from services rose by 18.3% compared to the previous year, reaching R\$ 22,188 million in 2011. Gross revenue from products totaled R\$ 2,541 million, a strong increase of 63.1% over 2010.

REVENUE GROWTH

R\$ BILLION

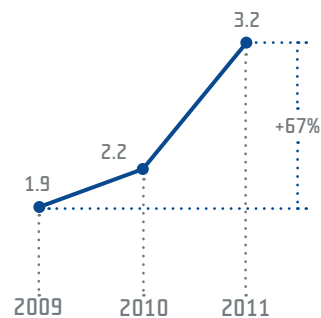


..... GROWTH
■ TOTAL NET INCOME
● YOY GROWTH IN NET INCOME

The growth in gross revenue from services in 2011 is fully justified by the gross revenue from data, which was up by 41.3% over 2010. This growth is the result of people signing up for the Infinity and Liberty Web data plans, as well as a positive contribution from Infinity Torpedo.

REVENUE FROM DATA

R\$ BILLION



..... GROWTH
● GROSS REVENUE FROM DATA

Higher gross revenue from products is mainly due to a larger mix of handsets: over 70% of total sales in the 4th quarter were smartphones or webphones (against approximately 40% in the same period last year). It should be pointed out that smartphone penetration attained 26.6% of our customer base, against 8% at the end of last year.

Total net revenue totaled R\$ 17,064 million in 2011, an increase of 18% YoY. Net revenue from services showed annual growth of 13%, amounting to R\$ 15,331 million. Net revenue from products totaled R\$ 1,733 million, growth of around 95.6% compared to 2010.

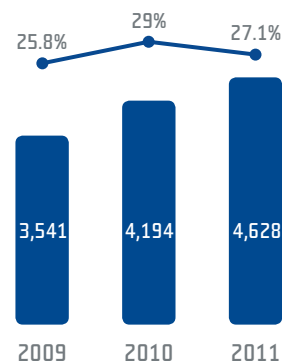
Operational costs and expenses rose by 21.2% in the year, to R\$ 12,435 million in 2011. This increase can be explained primarily by the sturdy growth of handset sales and subscriber base.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) amounted to R\$ 4,628 million in 2011, representing R\$ 435 million growth in 2011 (or +10.4%). This is the result of high outgoing and data revenues, and was slightly offset by the increase in subscribers, which requires more sales and network expenses.

The EBITDA margin ended the year at 27.1%, a 1.9 p.p drop. The reduction for the year can be largely explained by higher handset sales, which is part of the strategy for higher penetration in smartphones and webphones.

EBITDA

R\$ MILLION



■ EBITDA
● EBITDA MARGIN

Depreciation and amortization totaled R\$ 2,564 million in 2011, a 14.4% decline for the year, largely explained by the reduction in the capitalization of subsidies on handsets.

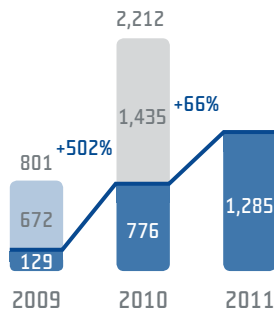
The annualized net financial revenue was R\$ 234 million, a drop of 4.7% compared to 2010.

In 2011, financial expenses rose by 17.4%, reaching R\$ 447 million, reflecting the 10% growth in debt (to R\$ 3.7 billion) as well as higher interest and monetary restatement on taxes and contingencies. Financial revenues rose by 35.2% to R\$ 313 million, which can be explained by higher interest earned on cash and cash equivalents, in addition to monetary restatement. Net exchange rate variation was R\$ 101 million (R\$ 97 million in 2010), reflecting higher expenditures with hedge instruments.

Consolidated net income totaled R\$ 1,285 million in 2011, up 66% compared to the (organic) R\$ 776 million for 2010.

NET INCOME

R\$ MILLION

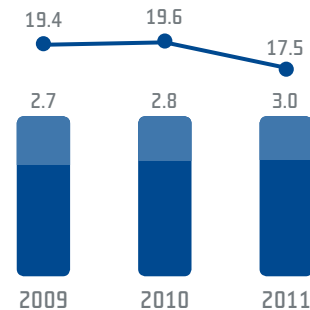


- FISCAL BENEFIT + INTELIG FX GAIN
- FISCAL BENEFIT
- ORGANIC
- ORGANIC GROWTH

Investments totaled R\$ 1,129 million in the fourth quarter of 2011. In the case of the accumulated amounts, Capex totaled R\$ 3 billion in 2011, or 17.5% of net revenues.

CAPEX

R\$ BILLION



- INVESTMENT IN SALES
- NETWORK INVESTMENT
- % NET REVENUE

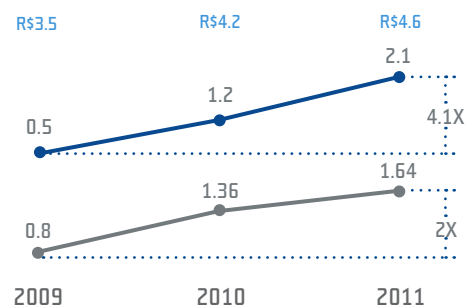
Gross debt totaled R\$ 3,706 million, a 9.7% increase compared to R\$ 3,378 million in 2010. This change is due to loans raised in the third quarter of 2011, totaling US\$ 220 million, and loans from TIM Fiber, which accounted for a R\$ 92 million increase. The company's debt is concentrated in long-term loan agreements (70% of the total), comprising financing from the BNDES (National Economic and Social Development Bank), the EIB (European Investment Bank), Santander and BNP Paribas, in addition to loans from international financial institutions.

Around 28% of the debt is in foreign currency (USD). These loans are fully swapped into local currency using hedge instruments. The average cost of debt totaled 10.63% in the fourth quarter of 2011, compared to 10% in the same period of last year.

Free cash flow from operations was positive by R\$ 1,649 million, or up 20.5% compared to 2010, due to the higher EBITDA and reduced depreciation and amortization.

EBITDA, EBIT, EBITDA-CAPEX

GROWTH IN R\$ BILLION

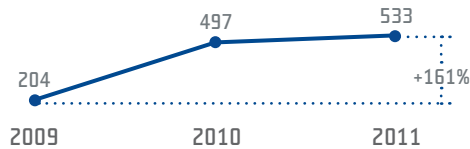


- EBIT
- EBITDA
- EBITDA-CAPEX

Management proposes to distribute R\$ 533.4 million against R\$ 496.6 million in 2010. The amount proposed for distribution represents R\$ 0.2207 per common share and R\$ 1.1035 per ADR (1 CS = 5 ADR). The proposal will be analyzed and discussed at the company's annual meeting of shareholders in April 2012.

DIVIDENDS

GROWTH IN R\$ MILLION



CAPITAL MARKETS

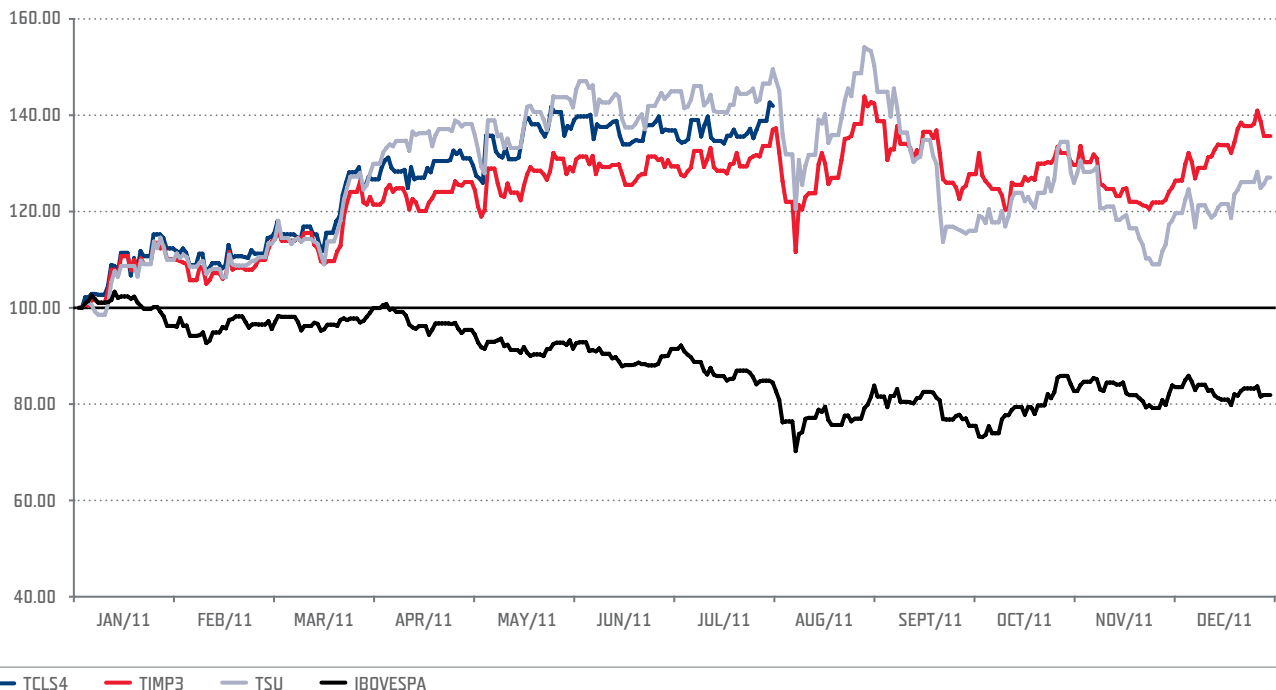
The common shares of TIM Participações S.A. are traded on the São Paulo Stock Exchange (BM&FBOVESPA) under the ticker symbol TIMP3. The company also has an American Depositary Receipts (ADRs) program in the US market, where securities are traded under the ticker symbol TSU on the New York Stock Exchange (NYSE).

The São Paulo Stock Exchange index (Ibovespa) ended 2011 at 56,754.08 points, accumulating a 18.1% drop compared to 2010. During the year, BM&FBOVESPA showed an average daily trading volume of R\$ 4.74 billion, which is practically stable or 0.3% higher than 2010.

The Dow Jones Industrial Average (DJIA), the main index on the NYSE, showed a 5.6% gain for the year, ending 2011 at 12,217.56 points.

In 2011, the total financial volume of TIM stock traded was R\$ 9,921.59 million, considering TIMP3 and TCSL4 (the former preferred shares), representing a daily average of R\$ 39.7 million. On the New York Exchange, our ADRs showed a total volume of US\$ 8,354.80 million for the year, a daily average of US\$ 32.9 million. At the end of the year, the company's share was quoted at R\$ 9.24 on the Bovespa, an accumulated appreciation of 41.9%, while the ADRs in NYSE were quoted at US\$ 25.80, an accumulative gain of 27% for the year.

PERFORMANCE AT THE STOCK EXCHANGE



OFFERS AND COMMERCIAL APPROACH

Our market approach at TIM is based on three fundamental pillars: innovative offers, optimized sales channels and quality customer service. These pillars support our strategy to pursue a differentiated positioning before the competitors, with an accelerated and sustainable growth.

SERVICES AND PRODUCTS

The strategy of TIM is firmly rooted in understanding and segmenting its customer base. Segmentation enables the company to deal with customers, provide services and offer products according to the different profiles of its consumer and business customers.

CONSUMER SOLUTIONS

In the case of the consumer segment, and bearing in mind the positioning of our voice services, TIM maintained the *Infinity* and *Liberty* concepts (respectively for pre- and post-paid customers), in a continuous drive to exploit the concept of the TIM community.

As a result, the company has retained its positioning as the operator that provides “Revolutionary Plans and Promotions”. The portfolio is based on innovators concept and mechanism, in the Brazilian market, such as per-call charging, breaking down the barrier of long distance and unlimited use, which now has 64.1 million lines throughout Brazil. The products and services launched during 2011 sought to exploit and further extend these benefits.

Principal plans sold:

- *Infinity* (pre or post-paid): the customer is only charged for the first minute of each call to any TIM number and can talk for as long as they want. In other words, they pay per call, not per minute;
- *Liberty*: for a fixed monthly charge customers can talk unlimited to any TIM number, with no restrictions on calls neither their duration.

On Fathers’ Day, besides unlimited local and long-distance calls (using code 41) to any TIM number anywhere in Brazil, *TIM Liberty* customers were able to talk for as long as they wish with any radio (SME) user, without any discounted from their minutes package.

Within the context of expanding the community in those areas with the greatest opportunities, TIM launched the *In-*

finity TRI offer in the state of Rio Grande do Sul, a new and completely adapted approach to the local culture. This offer brings a new concept to *Infinity*: charging users per day, instead of per call. This is another step to strengthen the company’s commitment to the state, in addition to sponsoring the top two local soccer teams and creating the TIM RS regional office.

In addition, at the end of the year TIM added another channel for *Infinity Pré* and *Infinity Controle* users to recharge their accounts. With this news channel now it is possible to recharge on the TIM website, using a credit card, in amounts ranging from R\$ 12 to R\$ 100.

BUSINESS SOLUTIONS

In 2011, TIM consolidated its strategy of differentiation in the corporate segment by remaining focused on simplifying the services, transparency with the customer and in the experience of unlimited use with no worries. The company also launched products, services and a differentiated approach to different segments of the corporate world. It was also a year of internet solutions, allowing companies of all sizes access to unlimited connectivity.

The TIM *Liberty Empresa* plans that already provided unlimited voice use to any TIM number in Brazil now also enjoy *Liberty Web Smart*. With this service, the customer enjoys unlimited use of the internet on their device, only paying for the service in the month in which they use it. The *smart* concept is unique in the market, providing and transparency to the customer.

Internet use on cell phones was also boosted by combinations of voice and data plans for smartphones and webphones. Among the top-selling combos was the one offering the iPhone 3GS on the TIM *Liberty Empresa 400* plan, for a monthly charge of R\$ 129. During the second semester of the year, 90% of handsets sold to the corporate segment were smartphones or webphones.

TIM also launched in 2011 the *TIM Radar*, a very simple localization solution that enables small companies to monitor their field teams. Launched at a special promotional price, it has become the most economical solution in the market, extending to all a service that previously was only accessible to large companies.

For companies that want connectivity by computer, laptop or tablet, TIM launched a family of four broad band internet plans, all of them with unlimited usage for data, ensuring convenience and transparency on the invoice. Among these plans there is *TIM Liberty Web Tablet*, the first plan in the

market designed for tablet users. When it was launched, TIM announced an exclusive offer for the plan with a Samsung Galaxy TAB device.

In order to meet the requirements of specific segments, in 2011 TIM launched an exclusive offer for doctors. The offer enables doctors to acquire a combo with a smartphone, a modem, a tablet and a landline device with their respective plans, for fixed monthly charge from R\$ 279. In addition, they enjoy six months free use of an exclusive TIM solution for health professionals that enables them to access medical information, send and control appointment reminders, in addition to medical calculators. This initiative was planned after research and analysis showed that these professionals are in need of effective assistance in their day-to-day working and personal lives.

VALUE ADDED SERVICES (VAS)

Value added services were constantly present in the TIM list of launches in 2011, in accordance with our continuous effort to deliver innovative offers to customers.

Infinity Torpedo and *Liberty Torpedo* bring unlimited use in voice plans to the SMS service. *Infinity Torpedo* is intended for pre-paid public, while *Liberty Torpedo* is for post-paid customers:

- *Liberty Torpedo*, launched in November 2011, consists of offering unlimited SMS (text messaging) for a fixed price, which is only charged in those months when the service is used.
- *Infinity Torpedo* offers unlimited per-day charging when the service is used (R\$ 0.50 per day).

From the launch of *Infinity Torpedo* in February of 2011, to the end of 2011 there was a 13 times growth in traffic, with over three times the number of single users (customers who sent at least one SMS on the day), reaching in December 20.5 million users in the month.

Also in 2011 we launched the *TIM Som de Chamada*, a personalized ringtone service in which the user configures tunes for their friends to hear when they call him/her. The chosen tune is played instead of the traditional ringtone, until the call is answered. The user can configure different tunes for different groups, or the same tune for everyone who calls. The launch offer provided the first month of service and the first tune free of charge to users.

The music download service also showed significant growth in 2011, with an increase of 91% in revenue in relation to December 2010. One of the major drivers of growth was the launch of the TIM Music Club, a subscriber service that offers the download of five tunes for a fixed monthly charge.

In an innovative promotion, TIM raffled one Sony LED 32 TV every day for 101 days, in the “101 free TVs” offer, in which

BASED ON THE UNDERSTANDING AND SEGMENTATION OF ITS CUSTOMER BASE, TIM'S STRATEGY ENABLES IT TO PROVIDE SERVICES AND OFFER PRODUCTS ACCORDING TO THE DIFFERENT PROFILES OF ITS CONSUMERS, SEEKING TO MEET THEIR DEMANDS.

more than 13 million people participated. Engaged users could also participate in a raffle to win R\$ 10,000 a day.

In December 2011, a co-branded credit card was launched in partnership with Itaú, called TIM Itaucard, which brings to TIM an unheralded relationship program based on the Itaú benefits platform. Using the TIM Itaucard, customers enjoy immediate discounts on purchases of TIM products and accumulate double the points on the “*Sempre Presente*” (Always Present) platform whenever they recharge their pre-paid device, as well as when they use the card to pay their account by automatic debit. In order to use their *Sempre Presente* program points, customers can redeem not only handsets, but also mileage. In addition, they enjoy all the 50% discounts in cinemas, theaters, stadiums and amusement parks that the Itaucard offers.

TIM, in partnership with insurance company Assurant, launched in November an insurance policy against cell phone robbery or theft, which is now available in all TIM stores, enabling customers to protect their devices against the risk of robbery or theft, with monthly charges beginning at R\$ 6.49. In the case of a claim, the customer pays 25% of the face value of the device sales note and receives a new one.

SINCE 2011, THE LIBERTY WEB FAMILY HAS A NEW MOBILE INTERNET PORTFOLIO FOR ACCESS THROUGH COMPUTERS AND TABLETS, IN ADDITION TO CELL PHONES.

This product addresses an underlying demand at a time when sales of increasingly sophisticated handsets are rising, enabling customers to enjoy TIM services with peace of mind.

DATA OFFERS – INTERNET ON CELL PHONES

In order to encourage even more use of mobile internet in the high-value segment, TIM launched *Liberty Web Smart* in April 2011. With it, customers of TIM *Liberty* plans have unlimited internet use on smartphones for a fixed monthly charge, and only pay for the month when they use the internet.

Liberty Web Smart is not a data package and there is no formal contract. One only has to be a customer of one of the eligible plans to automatically browse at one's leisure without worrying about the number of megabytes consumed and without paying for any surcharge for accessing the network. The customer is not required to sign up for the service and does not commit to a monthly package.

In order to leverage internet use by pre-paid customers with Blackberries, TIM launched the BBM and Free Internet (*Internet Grátis*) service in September 2011. Under this service, *Infinity Pré* and *Controle* customers with BlackBerry devices can use the BBM and social network apps and browse the internet.

In July 2011, with the aim of encouraging continuous internet use by customers whose handsets support Java, TIM launched the Mobile Facebook app on the Brazilian market, in partnership with Facebook. Using this application, customers with entry devices enjoy a differentiated browsing ex-

perience on the world's largest social network, very similar to the smartphone experience.

Launched in 2010, *Infinity Web* – which allows unlimited internet access on cell phones for a very competitive daily usage charge, was retained in the portfolio and reached the mark of 2.7 million single users per day, nine-fold growth since launch.

INTERNET ON COMPUTERS OR TABLETS

In March 2011, TIM launched *TIM Liberty Web*, its new mobile internet portfolio for access on computers and tablets. There are three unlimited access options, at maximum network speed, with no surcharges, loyalty program or penalties for cancellation: *Liberty Web Tablet*, at R\$ 49.90, is an offer suited for the browsing requirements of those with this type of equipment; *Liberty Web Modem* is intended for customers who access the internet on their computers and laptops, for a monthly fee of R\$ 79.90; for those requiring greater data traffic speed, *Liberty Web Modem Plus* is the most suggested offer, for a monthly fee of R\$ 109.90. This launch equips the *Liberty Web* family with options for browsing on cell phones, tablets or computers.

In October 2011, the *Liberty Web* family was expanded to incorporate *Liberty Web Light*. This is an offer along the lines of the National Broad Band Plan (PNBL): unlimited, with a maximum speed of 1Mbps for R\$ 35 a month. And as is the case with other *Liberty Web* offers, there are no surcharges, loyalty plans or penalties for cancellation. With the launch initially envisaged for four cities, according to Telebrás, this coverage has been extended to all cities where TIM 3G already exists.

Also in November, together with car manufacturer GM, the first connected car was launched in Brazil. Those purchasing the Agile model of the Wi-Fi series win a TIM Wi-Fi router for use in their car, and one year of unlimited free internet.

In December 2011, TIM introduced another novelty for those wishing to browse the internet on their computer or tablet while avoiding an invoice at the end of the month: the *Infinity Web Modem*. This is a mobile pre-paid internet offer similar to *Infinity Web* for cell phones, in which the customer will only pay for the service on the day they use it, with the ability to make more intense, unlimited use of data.

LONG-DISTANCE OFFERS

TIM retained its strategy of increasing its market share of CSP 41 within its customer base and encouraging migration of long-distance landline access through other operators to TIM, engaging in actions for customer loyalty and retention of high-value customers. This strategy has consolidated TIM as the leader in the domestic long-distance market.

Focused on offers like *Infinity* and *Liberty*, TIM has encouraged long-distance traffic between its subscribers, taking advantage of the nationwide presence of its differentiated

voice network. Both plans allow unlimited conversation with any TIM number in Brazil, using code 41.

Furthermore, CSP 41 was launched on the market as a long-distance option for landline accesses of other operators. Discount plans were launched, such as “Disque Sempre 41” and “País Amigo 41”, as well as “Infinity 41 Fixo”, allowing landline access users of other operators to try out the *Infinity* experience, where only the first minute of each intercity (DDD) and international (DDI) call is charged, regardless of the operator of destination.

INTERNATIONAL ROAMING OFFERS

In the case of international roaming, in 2011 we brought to the consumer public a special package of one hundred minutes of calls to operators in the Americas, with differentiated pricing, for use with the major operators in South, North and Central America, and a 20-minute package valid for all operators with roaming arrangements.

In addition, during the school vacation periods there were promotions of 50 and 100-minute packages for consumer and business customers, respectively, with a discount of 58% on the standard price.

The company also entered into a partnership with foreign exchange bureau Confidence, where TIM customers enjoy exclusive discounts of 2% when converting any currency. In exchange, Confidence embarked on segmented communication to disclose the TIM international roaming service to all its customers.

TIM also remained the leader in coverage, totaling 208 countries and differentiated voice and data packages for use abroad. In the case of personal customers, the “First Call Free” concept was retained, which provides three minutes on the first call received or originated on international trips. In the case of pre-paid customers, there was an aggressive price offer to encourage them to use the service. In the case of our business customers, the unlimited BlackBerry service abroad continued to be highly attractive, as TIM makes available a specific monthly data package for this service, permitting unlimited GPRS/Edge/3G connection in every country where we provide coverage.

LANDLINES

Constantly searching for innovative ideas, in the third quarter we launched *TIM Fixo Ilimitado*. This product allows users to make unlimited duration calls to any landline in Brazil of any operator – in addition to unlimited calls to local TIM mobiles, indicating a convergence between its products. These benefits are available for a flat monthly charge.

HANDSETS

In the case of handsets, TIM continued selling these devices using its over-the-counter SIM card strategy initiated in 2009. Customers can purchase unblocked devices in 12 interest-free installments from our portfolio. During the first quarter of 2011, TIM launched several proposals to streng-

then its positioning on the market. For example, TIM was the first Brazilian operator to sell Dual SIM models, focusing strategically on massification for the Android platform and introducing to the market low-cost models with similar characteristics to smartphones (internet access, e-mail and social networks).

TIM held to its strategy of cutting subsidies, focusing on actions and on providing services instead of subsidizing purchases of cell phones. Therefore, with the advent of the first data offers with emphasis on micro browsing and social networks for the pre-paid public, it introduced the webphone concept – a device with a QWERTY keypad or touch-sensitive screen, with good internet support (2.5G), but without the functionalities of a smartphone – at very competitive, non-subsidized prices. During the year webphones increased their share of the portfolio and sales of handsets.

The second quarter of 2011 saw TIM launch the first webphone on the market for less than R\$ 200. The Nokia X2-01, with exclusive TIM colors, turned out to be a huge success, as it was the only device in the R\$ 199 range to offer internet, e-mail, and social networks. Furthermore, TIM completed the largest launch on the Brazilian market with the Motorola Atrix, the most complete smartphone so far, with a Dual Core processor. That same quarter TIM also began selling the 3GS iPhone for R\$ 999, with market exclusivity, initiating a strategic alliance with Apple.

In the third quarter, TIM increased its sales of entry webphones, with the launch of the Motorola Motokey Mini, achieving huge penetration in the market and among large retailers. While strengthening the presence of webphones, the market also embarked on the natural substitution of the *Essencial* category with Dual SIM models. This was intensified from the advent of models like the ZTE R221. In addition, there were two landmark launches in the market, and once again TIM obtained substantial differentiation. The first was the debut of the Samsung Galaxy S II, which has turned out to be a strong competitor in the premium smartphone range. The other was the launch of the SonyEricsson Xperia Play, the only device on the Brazilian market with a joystick for games and PlayStation certificate.

The fourth quarter saw lots of activity and important launches. Pioneer in Brazil, TIM introduced the Apple iPad 2, further strengthening its strategy on both retail and business channels. There was also the exclusive launch of the Motorola Motokey Social, the first telephone fully integrated with Facebook. Another important launch was the new version of the Windows 7.5 platform for smartphones. For customers this means yet another option in operating systems, so they can choose what suits them the best.

COMMERCIAL OPERATIONS

TIM has an extensive distribution channel for selling SIM cards and recharges in every Brazilian state, having consolidated its domestic presence since 2002. The company counts on 9,000 points of sale, including premium stores and (exclusive or multibrand) resellers, not to mention the capillarity of the large retail networks. Besides the traditional points of sale, our pre-paid customers have access to alternative recharge channels, such as supermarkets and newspaper kiosks, totaling around 400,000 points scattered across Brazil.

The year 2011 was one of consolidation for the sales department. Slight adjustments were made to the changes undertaken in 2010, and the go-to-market model that had resulted in increasing sales volumes during the previous year was extended, resulting in a new sales record in 2011. The alternative channels for selling pre-paid SIM cards were fundamentally important in building this result.

In 2011 TIM reached the 39.8 million mark in gross additions, of which 35.6 million were pre-paid accesses and 4.2 million post-paid accounts. These figures represent growth of 39% in relation to 2010 (41.4% in pre-paid and 21.4% in post-paid accounts). The largest growth share in gross additions occurred through alternative, more affordable channels, enabling the company to reconcile a higher sales volume with greater cost efficiency.

In the case of pre-paid, the main driver of growth continued to be the *Infinity Pré* plan, launched in 2009 and which saw its value proposal rise due to the launch of innovative offers, such as *Infinity Mais* (voice) and *Infinity Web* (data). Initiatives such as *Infinity Torpedo*, in line with the strategy of leveraging usage, also helped to drive the result. Lastly, with a distinctive approach, we launched *Infinity TRI* in the state of Rio Grande do Sul, where customers pay R\$ 0.25 a day when they make calls to local TIM numbers and long-distance calls using code 41.

Revenue from recharges rose by 28.9% in the year, with more than 98% of recharges occurring electronically. This excellent performance of the electronic channel is the result of the TIM PDV (POS) project, which we have implemented since 2007, and which enables us to expand sales of electronic recharges.

TIM HAS AN EXTENSIVE DISTRIBUTION CHANNEL FOR SELLING SIM CARDS AND RECHARGES IN EVERY BRAZILIAN STATE, HAVING CONSOLIDATED ITS DOMESTIC PRESENCE SINCE 2002.

In the case of post-paid accounts we maintained the differentiated portfolio of TIM *Liberty* plans, adding value by launching services such as *Liberty Torpedos* (unlimited SMS), *Liberty Viagem* (unlimited calls received in domestic roaming) and *Liberty Web Smart* (unlimited internet), where customers only pay for the services in the month when they use them and where there is no need to sign up, making the TIM *Liberty* platform more all-in and more attractive. TIM also maintained its sales of combos, offering plans without loyalty periods and with handsets payable in 12, interest-free installments, for a flat monthly charge. This combination led to a 12% higher performance in gross additions in this segment in relation to 2010.

In the business segment, the portfolio reflected the strategy of providing customers with a simplified experience and unlimited use. The TIM *Liberty Empresa* and TIM *Empresa Mundi* plans served to leverage voice calls, while the *Liberty Web Smart* plan added to the offer of unlimited data use via cell phones. Going forward with the intent of increasing data use, TIM launched several voice and data combina-

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tions, such as the iPhone 3GS with the TIM *Liberty Empresa 400* plan and the Samsung Galaxy TAB with the TIM *Liberty Web* plan. Among other results, these actions generated a 9.8% growth in sales compared to 2010.

This commercial approach, combined with innovative offers, enabled TIM to show strong sales growth in 2011, without higher acquisition costs – on the contrary, the unit SAC (Subscriber Acquisition Cost) fell by 31.7% against the figure for 2010.

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CUSTOMER SERVICE

Quality customer service is one of the management's priorities at TIM. In 2011, investments continued to improve customer satisfaction and the quality of the service we provide.

TIM closed 2011 with good results in customer service, and this progress can be seen from the key official indicators. The 26% increase in the customer base had no adverse effects on the quality of services and assistance provided, and TIM remained the second company with the least complaints filed by consumer watchdogs with the National Consumer Protection Information System, or Sindec. Also, the company score on Anatel's Service Performance Index rose by 10% over the year.

From May to October 2011, the company's IDA score rose from 84.75 to 93.95, becoming the second best result among the key operators in Brazil. The company also holds the best performance in the indicators of the General Quality Targets Plan, also measured by Anatel, having met 100% of the service targets since August 2010.

INTANGIBLE ASSETS

THE TIM BRAND

In 2011, there was a record growth in mobile telephony in Brazil, with approximately 40 million net cell phone additions. This reflects the current wave of optimism sweeping the nation, with unprecedented growth. In this context, operators have an important role to play.

The highlight of 2011 was undoubtedly TIM: not only did it retain top spot in terms of growth, but it continued to revolutionize communication habits. It was the most recalled and preferred brand in the segment, ending 2011 with over 64 million clients.

The product portfolio has gained in sophistication, so that Brazilians can increasingly communicate, free of borders, limitations, and concerns. That is why TIM was able to include in its communication the concept that embodies the brand's vocation: to bring "Total Mobility" to everyone, enabling them to go where they have never been before and to always go beyond. This is the TIM proposition, responding to and encouraging the grand moment that Brazil is experiencing today.

ADVERTISING CAMPAIGNS

In terms of communication, the major institutional brand initiative was the launch of the Total Mobility concept. The campaign consisted of a manifesto and several videos illustrating how much TIM helps people to do more, to be more, and to go further. Besides the videos, the multiplatform effort continued on the internet, with actual stories of total mobility. Overall, there were 26 campaigns.

The work of the Blue Man Group (BMG) continued and came to full development, consolidating a successful partnership that promises new developments and achievements in 2012.

Regarding products, the emphasis was on consolidating the *Liberty* and *Infinity* platforms, with TV stars Wagner Moura and Daniele Suzuki as spokespersons. In 2011 we launched an enhanced configuration for *Liberty*. The results of the *Infinity* program enabled TIM to reclaim second place in terms of market share, after four years.

In 2011 TIM also introduced a new communication platform, breaking new ground with its public: soccer. The sport finally

found a place in the brand repertoire, with an innovative form of sponsorship on the shirt numbers of Brazil's major clubs and sales of promotional SIM cards of each of these teams.

HUMAN RESOURCES

TIM ended 2011 with 10,562 employees throughout Brazil, representing the intellectual capital that is essential to the success of its business. This is a productive, highly-qualified team, of whom 43% already hold or are taking university degrees, while 6% have postgraduate qualifications. With knowledge, skills, and attitudes that are essential for the company's development, these professionals are young, with an average age of 30: 25% of staff are up to 25 years of age; 49% are between 25 and 35; 19% between 35 and 45; and 7% over the age of 45. The labor force at TIM also comprises 18 contractors, 302 interns and 270 apprentices.

The company manages its human resources to align personal expectations, business requirements, and market conditions. Employee rights are guaranteed within a stimulating and challenging environment, with incentives and opportunities for growth. The company seeks to engage its employees in its strategic objectives and invest in their professional development, so that the team is totally committed to the company's targets.

Besides dealing with challenging working conditions, employees are encouraged to pursue self-development through internal growth opportunities and innovative training programs, primarily in the pillars of technical, behavioral and managerial skills. In 2011 TIM registered 11,799 participants on the Training and Qualification Program, making a total of 630,143 hours, or an average of 53 hours per employee.

The company acknowledges the distinctive performance of its professionals, using employee performance management as the benchmark. During 2011, 1,580 employees were considered for merit bonuses, involving 36% of the eligible population, with an average salary increase of 22%.

At TIM, the priorities are to attract and develop high-potential professionals. By means of the Talent without Borders (*Talentos sem Fronteiras*) Program, TIM identifies and attracts the best young professionals in the labor market, preparing them to put into practice new ideas and to take up strategic positions within the company. In 2011, 90 talented people were chosen in two groups.

IN 2011 THE COMPANY INVESTED R\$ 570 MILLION IN INFORMATION TECHNOLOGY AND THIS, COMBINED WITH GREATER TECHNOLOGICAL EFFICIENCY, LED TO GROWTH OF 33% IN THE NUMBER OF PROJECTS DELIVERED.

integration with the TIM IT systems, and the respective commencement of the development of a suite of new systems to support the new residential broad band business.

Other projects served the capacity growth plan, in addition to demands from different areas of the company, where the emphasis is always on improving the experience of the end-customer – from the moment of purchase to the use of services and customer assistance – as well as the efficiency of internal processes.

Among the measures designed for health, well-being, encouraging regular sports and the adoption of a health way of life, the highlight was the TIM Olympics. The internal sports competition strengthens total mobility and values such as triumph, excellence, and team spirit. In 2011, 2,196 employees signed up for the event throughout Brazil.

TECHNOLOGICAL CAPITAL

Technology plays a very important role in supporting the services provided to TIM customers in a wide variety of segments, now including the residential landline segment. In 2011 the company invested R\$ 570 million (or 19% of its investments) in information technology. Combined to greater technological efficiency, this led to growth of 33% in the number of projects delivered.

Some of the year's highlights were: (1) a project to integrate and harmonize the BSS (Business System Support) and OSS (Operational System Support) systems, enabling a wide-ranging network inventory and a product catalog, in addition to managing end-to-end orders (computerized fulfillment), consolidating the landline and mobile networks, (2) the absorption of the information technology operations of AES Atimus (currently TIM Fiber), through migration to and

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

PERFORMANCE WITH RESPONSIBILITY

Our performance in 2011 was notable for the maintained competitive sales strategies and the profitable recovery of the share in a highly competitive mobile telephony market. The result was the conquest of second place in the market and the consolidation of the new positioning of TIM as an agent for social advancement, affording and enhancing total mobility and unlimited communication for everyone while developing their ability to relate with the world. Thus we expanded the offer of services that raise the standard of mobility by adding unlimited internet and SMS per day for a fixed charge to the *Infinity* plan, which allows long intercity calls for the price of a local call .

Solutions such as these reduce the need for deployment, which results in reduced CO2 emissions, the main greenhouse gas responsible for global warming, thereby strengthening our belief that our industry is part of the solution for addressing the dilemmas of economic growth, without losing sight of the limits to the environment.

Another example of the services available is the electronic recharge, replacing physical cards, optimizing the use of plastic and paper while reducing the need to transport these materials. This service now accounts for 97% of credit recharges on more than 50 million pre-paid cell phones on the TIM customer base.

The company is aware of the potential adverse impacts of its business segment, such as the waste generated from cell phone turnover and electromagnetic emissions from base transceiver stations (BST). The strategies of TIM produce positive byproducts in this sense, since a supply model based on over-the-counter SIM cards may postpone the substitution of handsets, while the sharing of networks and sites, allied with modern technology and equipment, optimizes energy use and land occupation, thus reducing the environmental impact of access systems.

Regarding environmentally harmful gas emission, since 2008 TIM has inventoried its emissions using the GHG Protocol methodology. This study will form the basis of our climate change policy.

In consideration of its stakeholders, TIM offers customers and employees opportunities to also contribute to a better world. In 2011 we began a campaign to encourage our cus-

tomers to adopt the summarized invoice model, which contributed to lower consumption of paper. In this format, customers can get an overview of what they spent, and then go to TIM website for a detailed consumption breakdown. In the case of employees, we restructured the sustainability course available on the TIM Connection e-learning tool, inviting them to take the course which enhances internal awareness of the concepts of sustainability.

In our view, initiatives such as these also involve sustainable development-focused management, and these issues will be included in the meetings of the Internal Control and Corporate Governance Committee as of 2012. Recognition of this work came in the form of inclusion, for the fourth consecutive year, on the Corporate Sustainability Index (ISE) of the BM&FBOVESPA, and for the second consecutive year, on the Efficient Carbon Index (ICO₂) launched by the São Paulo Stock Exchange in 2010.

Our social and environmental responsibility policies – the guiding stars for our actions and initiatives – are based on the principles of the UN Global Compact, a voluntary agreement to which TIM has been a signatory since 2008. Under this agreement, companies around the world agree to ensure respect for the ten principles involving human rights, working conditions, the environment, and transparency.

RELATIONSHIP WITH SOCIETY

Nine years ago, the company introduced TIM Music in Schools (*Música nas Escolas*) Project, which came to an end in 2011, as originally planned. The program benefited over 20,000 public school students in 13 Brazilian cities and involved musical workshops and differentiated groups such as Centers for Cultural Happenings (*Núcleos de Agitação Cultural*), audio apprentices, children's drum brigades, and the project called Children as Ambassadors of Peace (*Pequenos Embaixadores da Paz*). The project gave rise to orchestras in six cities, and the launch of a CD in Rio, in Belém, and in Porto Alegre.

TIM sought to support the population in two large-scale natural disasters that shook Brazil and the world in 2011. During the floods that affected the mountainous region of Rio de Janeiro at the beginning of the year, we invested around R\$ 2 million in initiatives on behalf of the victims, by giving away recharge credits to over 65,000 pre-paid customers, extending the expiry dates of the bills of post-paid accounts in that region and distributing 1,200 pre-paid SIM cards and telephones to those whose handsets were lost or damaged in the floods.



In the second disaster, Brazilian and Japanese citizens were able to count on the support of TIM. Following the tsunami and the earthquakes that affected the island, we provided free-of-charge calls to Japan over a 10-day period, so that Brazilians could express their solidarity to relatives and friends living in Japan.

For more details about TIM's social and environmental performance, please refer to the Sustainability Report.

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