HOW TO MODEL
TIM S.A.

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Assumptions of TIM S.A.'s ("Company") business model:

SOURCES OF REVENUE

The Company's main sources of revenue come from:

(i) provision of mobile telecommunication and data services[1];
(ii) provision of fixed telecommunication and broadband services, and;
(iii) sale of products (handsets, electronic devices, equipment and others).

Revenues from individual and corporate customers are allocated under both mobile and fixed services.

The revenue is recognized as the services are used, net of sales taxes and discounts granted on services. This revenue is recognized only when the amount of services rendered can be estimated reliably. Revenues are recognized monthly, through billing, and revenues to be billed between the billing date and the end of the month (unbilled) are identified, processed, and recognized in the month in which the service was provided. These non-billed revenues are recorded on an estimated basis, which consider consumption data and number of days elapsed since the last billing date.

Revenue from mobile telecommunication and data services consists of:

a) Customer Generated Revenue (CGR):

GCR includes: (i) customer subscription services and use of data and voice packages; (ii) value-added services such as music, streaming and other applications; (iii) national and international roaming services, including those used by customers of other operators; (iv) long distance services and (v) other revenues related to connectivity services, such as revenues from B2B IOT and MVNO.

b) Interconnection

Interconnection revenue is generated through the use of TIM's network by customers of other operators. For example: when a user from another operator makes a call to a TIM number, the other operator must pay a fee to access TIM's network. Interconnection can be classified mainly between:

(i) Mobile Termination Rate e (MTR or "VU-M"): refers to the Interconnection tariff related to calls terminated in a mobile network;

[1] In April 2022, TIM announced the completion of the acquisition process of part of the mobile assets of Oi Móvel S.A. ("Oi Mobile"). With the completion of the transaction, TIM now holds 100% of the share capital of Cozani, a company that corresponded to part of the unit of assets, rights and obligations of Oi Mobile acquired by the Company. Cozani had its incorporation completed by TIM S.A. on March 31, 2023. The acquisition of Oi Mobile represented an important step in the Company's history on the national scene and generated a significant impact on the Mobile Services Revenue lines.

(ii) Specialized Mobile Service Remuneration (“VU-T”): refers to the tariff for Interconnection terminated in the network of Specialized Mobile Service operators.

c) Customer Platform

The Customer Platform corresponds to a line of revenue arising from TIM's strategy of monetizing its customer base and increasing customer loyalty through market trends and innovative partnerships. The initiative is supported by two business models:

Commercial Partnerships with:

(i) Advertising and Data Intelligence: where the main advertising sales products used are TIM Ads and TIM Insights;
(ii) Data Products: through financial scores and standardized validation/authentication products to improve users' digital security.

Strategic Partnerships:

We use the segmentation capacity of our base, combined with the strength of the TIM brand to endorse the partner brand, encouraging consumers to subscribe to the products of our strategic partners with exclusive offers for TIM customers. In this case, TIM's remuneration is linked to the success of the partnership, and may consist of revenue based on customer acquisition or even participation in partner companies’ share capital. This revenue group covers contracts with partners from different markets: financial, educational, digital security, health, mobile advertising, among others.

d) Other Revenues

Other revenues mainly comprise gains from leases and swaps of infrastructure (fiber optic backhaul) and capacity, the sale of SIM cards and contractual penalties.

Revenue from fixed telecommunication and broadband services consists of:

a) Traditional fixed telephony:

Comprised by revenues from subscription, data package and long-distance from all customers. Additionally, it is part of the interconnection line, in this case calculated by traffic multiplied by the Local Network Use Rate (“TU-RL”), related to calls terminated on a fixed network.

b) Fixed broadband:

In this context, broadband revenue corresponds to services provided and associated with TIM Ultrafibra, the Company's fixed broadband product, which mainly focuses on FTTH, or “Fiber-to-the-Home”, coverage (and a small portion also on FTTC, or “Fiber-to-the-Curb” coverage) with operations in strategic areas.

Revenue from selling products:

It consists mainly of the sale of telephony devices, such as smartphones, which are often used as a customer loyalty and retention strategy, associating a promotional price for one of these products with the customer's subscription to a telecommunication services plan for a certain period of time. In addition, the line includes sales of other products, such as modems, electronic devices, equipment and peripherals.

TAXES AND DISCOUNTS

Taxes on Circulation of Goods and Services (“ICMS”)

ICMS is levied on revenues from telecommunications services, both mobile and fixed. Since the ICMS is a state tax, it varies from state to state, and the average rate for telecommunication is between 20 and 22%.

It is important to remember that the Value-Added Service mentioned above is not considered a telecommunications service and, because of this, is not subject to ICMS, but to ISS.

For other revenues, such as the sale of devices and chips, the incidence of ICMS (own ICMS) occurs and, in many cases, there is also the incidence of ICMS tax substitute. The ICMS tax rate varies for internal and interstate purchases, being 18% for internal operations, 12% and 7%for interstate operations, and 4% for imports.

PIS and COFINS

The applicable taxation varies according to the nature of the revenue (cancelled sales and unconditional discounts granted, when applicable, are excluded from the calculation):

- Revenues from telecommunications services: subject to the cumulative regime that consists of applying the rates of 0.65% and 3%, respectively, on gross revenue;
- Revenues from sales of devices and activities not related to telecommunications (“non-telecommunication”): subject to the non-cumulative system, which includes the discounting of credits related to the purchase of goods for resale and inputs used in the activity, for example. The tax rates of 1.65% and 7.6%, respectively, are applied to the calculation base resulting from the comparison of debits and credits;
- Financial revenues: rates of 0.65% and 4%, respectively.

Discounts

The management of discounts is a fundamental part of the telecommunication operators' strategy for customer acquisition and retention. In offers of telephony plans and handsets, discounts applied on the base price of services and products are deducted from Gross Revenue in these lines. For example, when a plan or handset is offered at a discount to the company's standard selling price, Gross Revenue is booked based on this standard price and the discounts applied in the offer are booked under the Discounts line, with Net Revenue reflecting the price at which the service or product was actually sold. Discounts are part of the company's pricing strategy with regard to both gaining market share and building customer loyalty.

OPERATING COSTS AND EXPENSES ("OPEX")

The Company's service rendering costs include all the expenses related to the operation:

a) Personnel Expenses

Personnel expenses are essentially composed of salaries (including 13th salary and vacation), overtime, benefits (meal vouchers, transportation vouchers, medical and dental care, among others), charges (INSS, FGTS and others) and employee profit sharing.

b) Selling and Marketing Expenses

Selling and Marketing expenses mainly include expenses with advertising campaigns in different media, commissions to our sales partners, professional technical and other third-party services, Anatel fees (Fistel – TFF, CFRP and Condecine) charged on each active fixed line and mobile line, among others.

c) Network and Interconnection Expenses

Network and interconnection expenses mainly include: (i) costs from content providers; (ii) infrastructure rental, such as last mile rental from I-Systems[2]; (iii) network sharing and maintenance; (iv) expenses related to interconnection that correspond to the payment of tariffs when a TIM customer uses another operator's network and (v) national and international roaming costs.

d) General and Administrative Expenses (G&A)

General and administrative expenses are mainly composed of: expenses with building infrastructure, such as rental and maintenance of real estate, expenses with systems maintenance and development and amounts paid as a result of professional services contracted, such as consultants, auditors and lawyers, and donations for cultural purposes.

[2] In November 2021, after the creation of I-Systems Soluções de Infraestrutura S.A. ("I-Systems"), a company created to segregate network assets and provide broadband services, TIM concluded the sale of its shareholding in I-Systems for IHS Fiber Brasil - Cessão de Infraestruturas Ltda. ("IHS Brazil"). As a result of the closing of the transaction, IHS Brasil now holds 51% of I-Systems' share capital, with the remaining 49% remaining under the control of TIM.

e) Cost of Goods Sold (COGS)

Costs of goods sold include expenses with the acquisition of products (handsets, electronic devices, equipment and others) from third parties that will be sold by the Company.

f) Provision for Doubtful Debtors (Bad Debt)

Allowances for doubtful accounts are based on expectations of losses from defaulting customers. The indicator widely used for this measurement is the allowance for doubtful accounts over total gross revenue.

g) Other Operating Expenses (Income)

The other net operating expenses (income) include the records related to the Company's provisions, being the main ones: provision for tax, civil, regulatory and labor contingencies, besides other taxes, fees and contributions like FUST and FUNTTEL.

EBITDA

EBITDA is a non-accounting measurement disclosed by the Company, reconciled with its Financial Statements, in accordance with CVM Resolution No. 156 of June 23, 2022 ("CVM 156"), consisting of the Net Income for the year adjusted by Net Financial Revenue and/or Expenses, through current and deferred Income Tax and Social Contribution, through Depreciation and Amortization. The Company uses an adjusted view of the indicator which does not also consider the effects of equity in earnings.

The 'EBITDA Margin' indicator is commonly used by the market and is calculated through the ratio between EBITDA and Net Revenue (Gross Revenue deducted from Taxes and Discounts) recorded in the considered period.

However, it is worth highlighting that EBITDA and EBITDA Margin are not measures defined by the accounting practices adopted in Brazil, nor by the International Accounting Standards – "International Financial Reporting Standards" (IFRS), established by the International Accounting Standards Board (IASB) –, do not represent the cash flows for the years presented and should not be considered as a substitute for net income, as an indicator of operational performance, as a substitute for cash flow, as an indicator of liquidity or as a basis for the distribution of dividends.

Furthermore, another important indicator is the so-called 'EBITDA-AL' ("After Leases"), which represents the EBITDA adjusted by financial leases and, in the same way, the EBITDA-AL Margin indicator represents the ratio between EBITDA-AL and the Net Revenue.

DEPRECIATION AND AMORTIZATION

The Depreciation accounted for by the Company focuses mainly on telecommunication and infrastructure equipment and financial leases, while Amortization focuses mainly on software and frequencies right-of-use authorizations. Information about the annual rates and average periods of depreciation and amortization of assets can be found in the Notes regarding 'Property, Plant and Equipment' and 'Intangible' of the Company's Financial Statements in the website's Results Center section.

FINANCIAL RESULTS

The Company's financial result includes:

a) Financial Revenue

The main financial revenues refer to: (i) income on investments in financial institutions with the highest ratings in the market, in CDBs and committed operations backed by debentures linked to DI rate (Interbank Depositary); (ii) interest on lease/rental agreements (active leasings); (iii) monetary updates (mainly on contingencies and deposits and loans); and accounting of the mark-to-market of equity investments in strategic partners.

b) Financial Expenses

The main financial expenses refer to: (i) interest on loans and financing with banks and other local and international financial institutions; (ii) interest related to tax rates; (iii) interest on lease/rental agreements (lease liabilities); and (iv) monetary restatements (mainly on contingencies and deposits and loans).

c) Net Exchange Variation

The foreign currency loans and financing contracts are 100% hedged through mark-to-market derivative contracts. Thus, the net impact of exchange rate variations on foreign currency loans is null. The contracts with suppliers that render services or sell products (appliances) foresee an "exchange rate band", in which the foreign currency can vary, without affecting the costs incurred, so they are partially subject to exchange rate variation.

INCOME TAX AND SOCIAL CONTRIBUTION ("IRPJ/CSLL")

We can separate the company's income tax and social contribution into two main groups:

- Current IRPJ/CSLL: the calculation basis is the profit before taxes for the calculation period, adjusted by the additions, exclusions or compensations prescribed or authorized by the tax legislation. After the offsetting of tax losses and negative bases (limited to 30% of the taxable income), the rates of 25% for IRPJ (15% and an additional 10%) and 9% for CSLL are applied.
- Deferred IRPJ/CSLL: recognized on accumulated tax losses and negative bases and on temporary differences between the tax bases of assets and liabilities and their carrying amounts. The calculation is made using rates of 25% for IRPJ and 9% for CSLL.

In addition, TIM has tax benefits and uses methods of distributing profits to its shareholders that reduce its effective tax rate. Among them are:

- Tax benefits: the company enjoys a discount on Current Income Tax due to its operations in the areas of the Superintendence for the Development of the Northeast (Sudene) and the Superintendence for the Development of the Amazon (Sudam).
- Interest on Equity (IOE): In Brazil, an alternative method to the payment of dividends for a company to distribute profits to its shareholders is the IOE. In Brazil, dividends are not taxed, but the company has an income tax rate of 25% of its EBIT. The Interest on Equity, on the other hand, has a tax rate of 15%, taxed at source at the time of distribution. However, the JCP is deductible from the company's IR calculation basis, which makes its effective tax rate reduced. Thus, there is a benefit for both the investor and the company in using this method of distribution.

NET INCOME

Net income for the period is the sum of operating profit, non-operating profit, and share of profit.

Regarding the distribution of dividends, TIM, as provided for in its by-laws, has set as minimum distribution fraction on its adjusted net income the percentage of 25%. Adjusted net income considers the adjustment related to the legal reserve, allocation to contingency reserves and the accounting of unrealized profits.

CAPEX

CAPEX represents the Company's main investments as an addition to Property, Plant and Equipment. In other words, it is an indicator that represents the Company's capital investments in the acquisition of assets, such as towers, equipment, infrastructure, land, among others.

A metric commonly used to understand the Company's capital allocation efficiency is the percentage of CAPEX over Net Revenue.

BALANCE SHEET

In TIM's Balance Sheet, there are a few lines specific to the telecommunication sector or features that are worth highlighting. These are:

a) Trade accounts receivable – accounts receivable net of Bad Debt, due to customers with overdue invoices and calculated based on the company's criteria.

b) Prepaid expenses – the expenses related to Fistel (TFF, CFRP and Condecine), related to fees with Anatel, paid once a year, are recognized monthly in the result and have the remaining balance accounted for under the prepaid expenses line in the balance sheet.

c) Derivative financial instruments – referring in their totality to hedge operations for foreign currency debt and accounting for mark-to-market participation in the share capital of partners.

d) Finance leases – referring to the balances of financial leases related to the sale-leaseback agreements of towers, LT Amazonas and IFRS 16. For more details, check the “Leasings” section.

e) Property, Plant and Equipment – the balance of the company's permanent assets, either via own investment (CAPEX) or financial leasing contracts.

f) Intangible assets – include licenses for spectrum use, acquired from Anatel, software being used and/or development, right to use infrastructure from other companies and goodwill in the acquisition of companies.

g) Authorizations payable - commitments to pay for authorizations with Anatel.

h) Provision for judicial and administrative proceedings – the Company is an integral part in judicial and administrative proceedings in the civil, labor, tax and regulatory spheres, which arise in the normal course of its business. The provision is constituted based on opinions of the Company's and Management's legal advisors, for amounts judged to be sufficient and adequate to cover losses and risks considered probable.

i) Pension plans and other post-employment benefits – the company sponsors defined benefit private pension plans for a group of employees from the former TELEBRÁS system, which are currently under the administration of Fundação Sistel de Seguridade Social and Icatu Fundo Multipatrocinado. The balance sheet amounts represent total liabilities and not net liabilities.

LEASINGS

When entering into a contract, the Company assesses whether the contracts signed are (or contain) a lease. An agreement is (or contains) a lease if it transmits the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases whose the Company is a lessee are capitalized at the lease's commencement at the lower of the fair value of the leased asset (right-of-use) and the present value of payments provided for in contract, and lease liability as a counterparty. Interest related to the leases is taken to income as financial costs over the term of the contract.

Leases in which the Company, as a lessor, transfers substantially all the risks and rewards of ownership to the other party (lessee) are classified as finance leases. These lease values are transferred from the intangible assets of the Company and are recognized as a lease receivable at the lower of the fair value of the leased item and/or the present value of the receipts provided for in the agreement. Interest related to the lease is taken to income as financial revenue over the contractual term.

Asset leases are financial assets or liabilities classified and/or measured at amortized cost.

It is important to highlight that the Company has a significant number of lease contracts in which it acts as a lessee, and with the adoption of the IFRS 16 accounting standard, on January 1, 2019, it significantly impacted the Company's Income Statement and Balance Sheet, since this standard now treats all leasing contracts, previously classified as “operating leases”, as “financial leases”.

NET FINANCIAL POSITION

TIM's Gross Debt is calculated by adding the lines of: (i) loans and financing from current and non-current liabilities; (ii) net balance of derivatives (short- and long-term derivatives liability balance less short- and long-term derivatives asset balance), excluding those related to Banco C6; (iii) finance lease net balance (short- and long-term finance lease liability balance less short- and long-term finance lease asset balance); and Debt balance related to the acquisition of licenses in the frequency auction.

The Net Debt (or Net Financial Position) consists of deducting the position of the Cash, Banks and Financial Investments lines from the Gross Debt.

CASH FLOW

TIM's Cash Flow Statement inlcudes:

a) Cash Flow from Operating Activities (OpCF):

   The OpCF groups the cash movements related to the company's operating activities, such as, for example, revenues from telephone service plans and disbursements on handset purchases for sale. In TIM's Financial Statements, the company presents its cash flow indirectly, i.e., starting from Pre-Tax Profit, adjusting it for non-cash effects - such as Depreciation and Provisions - and non-operational effects - such as Interest on Loans and Leases - and then reconciling the Income Statement entries (on an accrual basis) with the cash movements through changes in the balance sheet lines.

b) Cash Flow from Investment Activities (ICF):

   These cash movements of the company refer to the investments made in the period in Property, Plant and Equipment (e.g. Infrastructure) and Intangible Assets (such as Licenses). Since the Cash Flow presented by the company deals with changes in the cash position of the Balance Sheet, eventual investments and divestments in financial assets, classified under the Securities line in the Current Assets of the Balance Sheet, are also reflected under the ICF.

   TIM's CAPEX is mainly composed of investments in network and IT infrastructure.

c) Cash Flow from Financing Activities (FCF):

   These flows deal with the company's cash movements with its capital providers. These movements refer to the changes in the debit balances of loans, financing and lease contracts (contraction of new loans and amortization of existing financing), as well as interest payments on these liability balances and payments of dividends and Interest on Equity.

ACCOUNTING STANDARDS

IFRS 9 (CPC 48) and IFRS 15 (CPC 47)

On January 1, 2018, IFRS 9 and IFRS 15 became effective. The former includes new accounting standards on the classification and measurement of financial assets. IFRS 15, in turn, deals with the recognition of Revenue, changing the timing of accounting and the allocation of amounts between products/services rendered. In addition, IFRS 15 ends the capitalization of selling expenses (commissions), leading to a difference in allocation between OPEX (Selling and Marketing Expenses) and CAPEX.

IFRS 16 (CPC 06 R-2)

As of January 1, 2019, IFRS 16 became effective. The new rule stopped with the nomenclature of financial leasing and operating leasing contracts, so that all leasing contracts with terms longer than 12 months must appear on the Balance Sheet, by recording the right to use those contracts. In TIM's case, the leasing contracts are of the following nature: Towers, Land (network), Vehicles, Stores and Kiosks, Real Estate, Power Plants and Deleted Fiber.

The change did not cause a change in the company's cash flow. However, it led to significant changes in the asset (Property, Plant and Equipment) and liability (Leasing) balances of the Balance Sheet. In addition, the income statement is impacted, since the leasing contracts are no longer accounted for under the OPEX line, but under the Depreciation (write-off of the fixed assets of these contracts) and Financial Expenses (interest on leasing) lines.

To calculate the impact of adopting IFRS16, the amount paid periodically for renting/leasing a certain asset should be brought to present value by a predefined discount rate. In TIM's case, the discount rate is defined by multiplying the average cost of debt (in % CDI) by the pre-defined rate (defined by the term of each contract).

Depreciation of assets is calculated on a straight-line basis based on the contract term. The financial expense, in turn, should be calculated using the rate obtained and the liability balance.

The last impact on the Income Statement is related to the deferral of income tax and social contribution. Since IFRS 16 has no tax impacts, that is, it is not used for tax purposes, all the difference in income tax and social contribution observed compared to the previous standard is deferred.

Finally, for Cash Flow purposes, the amortization of the lease liability balance (shown under Financing Activities Cash Flow) is obtained through the difference between the amount paid periodically under the contract and the Finance Expenses in the same period.

It is important to note that the use of IFRS 16 should not lead to value creation for TIM's shares, since the standard does not change the company's Cash Flow and Cost of Capital.

TIM suggests that the Free Cash Flow to Equity (FCFE) is adopted for modeling and projecting the company's numbers.

It is worth noting that with the incorporation of IFRS 16, debt/leverage indicators and multiples, or those that use EV, EBITDA, EBIT, and Net Income (if there is a mismatch between the value of OPEX in the previous standard and Depreciation and Financial Expenses in IFRS 16), were impacted, changing levels.