

Brazilian economy, including the policies that President Jair Bolsonaro and his economic team submit for congressional analysis, which may be approved or not and might affect our business and the Brazilian economy.

In Europe, levels of economic activity entered a slower growth trajectory, as political tensions within the Eurozone and the effects of the United Kingdom formally leaving the European Union on January 31, 2020, or Brexit, continue. The United Kingdom is expected to continue to follow certain European Union rules during the transition period; however, the ongoing process of negotiations between the United Kingdom and the European Union will determine the future terms of the United Kingdom's relationship with the European Union, including access to European Union markets, either during a transitional period or more permanently (see "Item 3. Key Information–D. Risk Factors–Risks Relating to Brazil–We may be impacted by volatility in the global financial markets"). In the United States, it is unclear the degree to which current political divisions in the country will continue into the next four-year presidential term, as well as the policies that will be adopted by a new presidential administration and the effects of any such policies, if implemented.

Exchange Rates

In respect of foreign exchange, the Brazilian real depreciated 28% compared to the U.S. dollar in 2020. During the year, the exchange rate showed a depreciation of the *real* since December 31, 2019 due primarily to the impact of the COVID-19 pandemic on the Brazilian economy and the uncertainties related to the Brazilian fiscal policy. There can be no assurance that the *real* will not appreciate or further depreciate against the U.S. dollar or other currencies in the future.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments ranged from a daily to a monthly basis, floating exchange rate systems, exchange controls and dual exchange rate markets. Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and, since that time, the *real*/U.S. dollar exchange rate has fluctuated considerably. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar.

During the first part of 2021, the *real* continued to depreciate considerably as compared to the U.S. dollar. On April 29, 2021, the selling *real*/dollar exchange rate was R\$ 5.366 to U.S.\$1.00. The *real*/dollar exchange rate fluctuates and, therefore, the selling rate at April 29, 2021 may not be indicative of future exchange rates.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

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

Summary of Risks Relating to our Business

- We face various risks related to the COVID-19 pandemic and other health epidemics and outbreaks, which may have material adverse effects on our business, financial condition, results of operations and cash flows.

- We may be unable to successfully implement our business strategy.
- Any acquisitions, partnerships or joint ventures that we make or enter into could disrupt our business and harm our financial condition.
- We face increasing competition from other providers and services, which may adversely affect our results of operations.
- Our operations depend on our ability to efficiently operate our systems and controls that are subject to failure that could affect our business and our reputation.
- We face various cyber-security risks that, if not adequately addressed, could have an adverse effect on our business.
- Our operations could be suspended or interrupted as a result of natural or man-made disasters or other unexpected events.
- We may be unable to implement our plans to expand and enhance our existing networks in Brazil in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.

Summary of Risks Relating to Brazil

- Anatel classified us as an economic group with significant market power in some markets and we are now subject to increased regulation.
- The Brazilian government under certain circumstances may terminate our authorizations or we may not receive renewals of our authorizations.
- Risks related to Brazilian economic and political conditions may negatively affect our business.
- The Brazilian government has exerted significant influence over the Brazilian economy and continues to do so. This involvement may have an adverse effect on our activities, our business and on the market prices of our shares and ADSs.
- Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business and over our prices.

Summary of Risks Relating to our Common Shares and the ADSs

- Our controlling shareholder has power over the direction of our business.
- Holders of our ADSs are not entitled to attend shareholders' meetings and may only vote through the depositary.
- Holders of our ADSs or common shares in the United States may not be entitled to participate in future preemptive rights offerings.
- Cash dividends, interest on shareholders' equity and other cash distributions, as well as judgments seeking to enforce our obligations in respect of our shares or ADSs in Brazil will be payable only in reais.
- Holders of ADSs or common shares could be subject to Brazilian income tax on capital gains from sales of ADSs or common shares.
- An exchange of ADSs for common shares risks loss of certain foreign currency remittance and Brazilian tax advantages.

Risks Relating to our Business

We face various risks related to the COVID-19 pandemic and other health epidemics and outbreaks, which may have material adverse effects on our business, financial condition, results of operations and cash flows.

We face various risks related to health epidemics and other outbreaks, including the global outbreak of COVID-19. The COVID-19 pandemic, changes in consumer behavior related to illness, pandemic fears and market downturns, and restrictions intended to slow the spread of COVID-19, including quarantines, government-mandated actions, stay-at-home orders and other restrictions, led to reduction of demand for our services and our ability to provide those services, disruption and volatility in the global and Brazilian capital markets and had a negative impact on global, regional and national economies and disrupted supply chains and reduced international trade and business activity.

During 2020, the COVID-19 pandemic adversely affected our financial condition and operational results, with a decrease in net revenues in 0.6%, mostly impacted by the reduction of commercial activities due to the COVID-19 pandemic, with the temporary closure of certain of our retail locations and other points of sale, which caused a 22.7% drop in Goods Sold due to decreased demand as a result of the reduced disposable income available to certain customers and to the temporary closure of certain of our retail locations and other points of sale. The COVID-19 pandemic and government measures in response thereto continues to impact our business and operations, to a lesser extent, and depending on the duration of the epidemic, related restrictive measures as well as the effect of governmental regulations imposed in response to the pandemic, we may continue to be adversely impacted by the pandemic. If the pandemic continues for an extended period, it may also reduce demand from our post-paid clients for more expensive plans or certain services (e.g. roaming) or even lead to plan cancellations or increased delinquency. Protracted restrictive measures could also lead to disruptions in our logistic chain, in our suppliers' production or deliveries or in our ability to deliver our products (such as new devices or SIM cards) or to service our network on a timely basis, which may have a material adverse effect on our business and results of operations. If significant portions of our workforce are unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, our operations would be adversely impacted. Our availability indicators, repair performance and installation of new accesses/projects can be impacted by the effects of increased absenteeism in the field workforce and in our experts teams, or even by the imposition of Lockdown by COVID-19 that act as obstacle or hinders the displacement and access of field maintenance teams to equipment stations. We may have our supply chain for technological product inputs (like spare parts, transmission and commutation equipment, handsets and modems) impacted by any delay in the manufacturing process of vendors in their countries of origin, due to a new wave of COVID-19 that can imposes a new Lockdown. Our business could be adversely affected in many ways, potentially for a prolonged period of time, for example as a result of the impact of overall market declines and increased market volatility due to the COVID-19 pandemic, which could also ultimately negatively impact our ability to refinance our debt or raise capital in favorable terms.

To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section, such as those relating to our ability to successfully implement our business strategy (see "We may be unable to successfully implement our business strategy") the credit risk of our customers (see "We are subject to credit risk with respect to our customers"), our dependence on key suppliers and contractual relationships with other telecommunications providers ("We depend on key suppliers, certain inputs and contractual relationships with other telecommunications providers which are critical to our ability to provide telecommunications services to our customers") the Brazilian government's influence over the Brazilian economy (see "Risks Relating to Brazil-Risks related to Brazilian economic and political conditions may negatively affect our business," "The Brazilian government has exerted significant influence over the Brazilian economy and continues to do so. This involvement may have an adverse effect on our activities, our business and on the market prices of our shares and ADSs") and volatility in global and domestic financial markets. See "Risks Relating to Brazil- We may be impacted by volatility in the global financial markets" and "Risks Relating to Brazil-Developments and the perception of risk in other countries may adversely affect the Brazilian economy and market price of Brazilian issuers' securities."

In an attempt to mitigate the impacts of the pandemic in the telecommunications industry, the Brazilian federal government, or the Federal Government, issued Decree No. 10,282/2020, establishing that telecom and internet

services were essential during the COVID-19 crisis period, as well as services related to information technology and data processing (data center) to support other activities, including call centers.

This measure ensured that Internet and telecommunications companies would not be subject to the same level of restrictions in face of the limitations that were imposed by local governments, allowing workers to carry on under exceptional working conditions, such as doctors and security officers.

Furthermore, Provisional Measure No. 952/2020 postponed the payment of the *Fundo de Fiscalização das Telecomunicações*, or FISTEL, taxes due between March 31, 2020 and August 31, 2020. This amounted to R\$509 million in postponed taxes for us, with payment date not yet defined. The main objective of this measure was to ensure that users of telecommunications services were adequately served and did not experience massive interruptions, given the contraction of economic activities caused by the COVID-19 pandemic, while seeking to reduce the negative impact on telecommunications operators' cash flow in the first half of 2020.

As economic activity contracted, an increase in defaults in the telecommunications sector would be expected, which would hurt operators' cash flows at a time that connectivity is even more relevant for society. With social isolation measures in place to contain the virus, the broadband connection fostered remote communication, allowing for continued operation of various economic and educational activities, as well the population's access to information.

We may be unable to successfully implement our business strategy.

Our business will be adversely affected if we are unable to successfully implement our strategic objectives. Factors beyond our control may prevent us from achieving our strategy.

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

In respect of our strategic efforts regarding broadband, we are seeking to increase our presence in the residential broadband market by investing significant efforts and resources to expand our footprint and the density of our fiber optic broadband service ("FTTx"), providing a higher-speed fixed connection closer to the customer residence, branded as TIM Live, and launching our fixed broadband service through mobile network, a solution known as fixed wireless access ("FWA"), when we offer broadband through LTE or 4G wireless communication networks as a type of fixed wireless access. The provision of fiber optic broadband service is a highly capital intensive business that brings a long-term return on investments and increases the risks to our operation. As a new business, fixed wireless access also brings new risks, particularly related to market response and customer behavior, that could negatively impact the use of our mobile network resources.

Additionally, in December 2020 we initiated to deploy a new technology in our mobile network, commercially called as 5G DSS (Dynamic Spectrum Sharing). 5G DSS is a new feature that allows the deployment of LTE and 5G in the same frequency band and dynamically allocates radio resources between the two technologies based on user demand. This technology brings some benefits like a smoothing handover between 4G and 5G networks, a correct Time-to-Market for the launching of the 5G, technology, and a better use of the spectrum between technologies as the penetration of 5G terminals increases, without the need for a spectrum reframing.

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

- an increase in the number of competitors in the telecommunications industry that could reduce our market share;
- increased competition from mobile virtual network operator companies, which offer telecommunication services to customers by leasing network capacity from traditional network providers, without their own network infrastructure;

- increased competition from global and local OTT, providers who offer content and services based on the Internet including voice calls and messaging without owning network infrastructure;
- increased competition in our main markets that could reduce the prices we charge for our services and could have an unintended adverse effect on our results;
- our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide Value-Added Services to encourage the use of our network;
- controls and system technology failures, which could negatively affect our revenues and reputation;
- the introduction of transformative technologies that could be difficult for us to keep pace with and could cause significant revenues decrease;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of political and economic conditions in Brazil and uncertainties in credit and capital markets;
- our ability to most efficiently scale our structure;
- our ability to attract and retain qualified personnel;
- performance of third party service providers and key suppliers on which we depend, such as any difficulties we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weakness of our suppliers;
- government policy and changes in the regulatory environment or legal framework in Brazil;
- the effect of exchange rate and inflation fluctuations;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs;
- large scale adverse events that could cause negative effects, requiring a long recover period, or even impact permanently the socioeconomic environment, such as natural disasters, political instability, or pandemics;
- the real possibility of an increase in taxes by state governments and the Federal Government in order to balance their financial deficit;
- the increasing demand on our system bandwidth to manage the continuous growth of mobile data traffic, which in turn requires further investments in infrastructure or the acquisition of additional spectrum frequencies in order to maintain network quality and prevent turnover, especially in big cities, where the population is highly concentrated and the costs of network expansion are considerably high; and
- the renewal of our spectrum licenses over the next several years, given the ongoing changes being proposed in the Brazilian Congress to the telecommunications sector regulatory framework.

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

Future acquisitions of, or investments in, other companies, products, or technologies could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.

We may enter into relationships with other businesses in order to expand our platform, which could involve preferred or exclusive licenses, additional channels of distribution, or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult, and expensive, and our ability to close these transactions may be subject to third-party approvals, such as government regulatory approvals, which are beyond our control. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close.

Any acquisitions, partnerships or joint ventures that we make or enter into could disrupt our business and harm our financial condition.

Our business strategy has included, and may in the future include, acquiring other complementary products, technologies, or businesses. We evaluate and expect in the future to evaluate potential strategic acquisitions of, and partnerships or joint ventures with, complementary businesses, services or technologies. For example, in 2021, we entered into the Oi Agreement, as defined herein, with respect to the Acquisition of Oi Group's UPI Mobile Business, which we expect will add value for us and our shareholders. However, we may not ensure that any benefits will materialize, and we may suffer losses in connection to the used funds and to the opportunity costs related to such transactions.

Acquisitions or investments may result in unforeseen operating difficulties and expenditures and we may not achieve the anticipated benefits from certain acquisition, partnership and joint venture due to a number of factors, including:

- inability to integrate or benefit from businesses, services, customers or technologies that we acquire or with which we form a partnership or joint venture in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition;
- inability to finance any businesses, services or technologies that we acquire or with which we form a partnership or joint venture;
- difficulty integrating the accounting systems, operations, and personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- diversion of management's time and resources from other core business concerns;
- adverse effects to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business.

In addition, we may not be successful in identifying acquisition, partnership and joint venture targets or our competitors may be willing or able to pay more than us for acquisitions, which may cause us to lose certain acquisitions that we would otherwise desire to complete.

Also, to the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves, and to the extent the purchase price is paid with our common shares, it could be dilutive to our shareholders. To the extent we pay the purchase price with proceeds from the incurrence of debt, it would increase our level of indebtedness and could negatively affect our liquidity and restrict our operations.

Furthermore, even if any such transaction is consummated, we may be unable to successfully integrate the new operation, business or partnership contemplated thereunder or to realize expected benefits and synergies in a timely and effective manner due to difficulties in negotiating or aligning interests with potential partners or counterparties.

Goodwill impairments may be required in relation to acquired businesses.

We have made business acquisitions in the past and may make further acquisitions in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written down if our valuation assumptions are required to be reassessed as a result of any deterioration in the underlying profitability, asset quality and other relevant matters of the businesses. According to the relevant IFRS accounting standard, impairment testing in respect of goodwill is performed annually, or more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. There can be no assurances that we will not have to write down the value attributed to goodwill in the future, which would adversely affect our results and net assets.

We face increasing competition from other providers and services, which may adversely affect our results of operations.

We face competition throughout Brazil from many providers in the personal communications service, or PCS, market. We compete with providers of mobile telecommunication, VoIP services ("Voice over Internet Protocol"), and landline telecommunications services – including by bundling voice and data to customers in a single offer. Due to this increasing competition, we may incur higher advertising and commercial costs as we attempt to maintain or expand our market share. Other than TIM, the following main competitors also hold authorizations to provide PCS with national coverage: Claro S.A., under the brand name Claro, Telefônica Brasil S.A., or Telefônica Brasil, under the brand name Vivo, Oi S.A., under the brand name Oi and, Nextel Telecomunicações Ltda., under the brand name Nextel, which was acquired by Claro. Moreover, all PCS providers with national coverage offer third generation, or 3G, and fourth generation, or 4G, mobile telecommunications network technology, reducing differentiation. Possible market consolidations in the near future, if driven by our main competitors, may favor their strategic advantage with increased market power and access to greater financial resources, thereby weakening our market position.

We also expect to face increased competition from other services outside the telecommunications industry. Technological changes, such as the development, roll-out, and improvement of 4G and 5G mobile networks, may create new revenue streams but also hinder traditional services, introducing additional sources of competition, such as OTT competitors providing communication services like VoIP calls and messages. These OTT communication apps are often free of charge (i.e., no subscription fee), accessible by smartphones, and usually allow their users to have access to potentially unlimited messaging and voice services over the Internet, bypassing traditional and more profitable voice and messaging services, such as SMS, which no longer represent significant revenues. As penetration of smartphones in Brazil increases and OTT application services become widespread, SMS is becoming irrelevant. As a result, voice traffic is migrating to data and offers from almost all competitors have started to include unlimited voice, thereby accelerating commoditization. Furthermore, very often OTT applications become so important to customers that they are bundled as zero-rated services, or OTT applications for which data usage is free. These and other factors are responsible for the increase in the competitive pressure we are facing in the mobile market.

OTT application service providers also leverage existing infrastructures and generally do not operate capital-intensive business models associated with traditional mobile network operators like TIM. Technological developments have led to significant improvements in the services provided by OTT applications – particularly in speech quality delivered by data communications apps, strengthening their positioning and relevance as competitors. In addition, providers with strong brand capability and financial strengths have turned their attention to the provision of OTT application services. In the long term, if non-traditional mobile voice and data services or similar services continue to increase in popularity, as they are expected to do, and if we and other mobile network operators are not able to address this competition, this could contribute to further declines in mobile monthly average revenue per user, or ARPU, and lower margins across many of our products and services, thereby having a material adverse effect on our business, results of operations, financial condition and prospects.

OTT service providers concentrate the content, the means to create it and the distribution channel. With these resources they are dedicated to creating new ways the user can interact and consume content. As a result, operators like TIM are challenged to rethink Value-Added Services and may stumble upon limitations beyond technology, such as regulation, thereby not having enough leverage to compete.

We expect that new products and technologies will be created with frequency and that those already established will be in continuous evolution, implying a variety of potential consequences for us. These new outcomes may, in the best scenario, reduce the price of our services by providing lower-cost alternatives or, in the worst scenario, render our products and services obsolete, requiring significant investments in new technologies. If such changes occur, our main competitors in the future may be new participants in the market without the burden of an installed older infrastructure. The amount of investment needed to upgrade our premises and to stay effectively competitive could be significant.

Rising competition may increase our churn rate and could continue to adversely affect our market share and margins. Our ability to compete successfully will depend on the effectiveness of our marketing efforts and our ability to anticipate and adapt in a timely manner to developments in the industry, including the technological changes and new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. It is difficult to predict which of many possible factors will be important in maintaining our competitive position or what expenditures will be required to develop and provide new technologies, products or services to our customers. If we are unable to compete successfully, our business, financial condition and results of operations will be materially adversely affected.

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

The Brazilian telecommunications market has been subject to consolidation. For example, in September 2014, Telefónica S.A., or Telefónica, entered into a stock purchase agreement to acquire from Vivendi S.A., or Vivendi, all of the shares of GVT Participações S.A., the controlling shareholder of Global Village Telecom S.A., or GVT, and such acquisition, the GVT acquisition. The GVT acquisition increased Telefónica's share of the Brazilian telecommunications market, and we believe such trend could continue in the industry as providers continue to pursue economies of scale. In March 2019, Nextel Brazil was acquired by Claro S.A. and the Economic Defense Administrative Council (*Conselho Administrativo de Defesa Econômica*), or CADE, definitively approved the purchase of Nextel by Claro (America Movil group) in December 2019. In December 2020, we presented a jointly offer with Telefônica Brasil S.A. (VIVO) and Claro S.A. (CLARO) for the acquisition of Oi Group's UPI mobile business, as part of Oi Group's judicial reorganization (a form of bankruptcy protection under Brazilian law) started in June 2016. The closing of such transaction is subject to the approval of Anatel and the CADE and is expected to occur by the end of 2021. See "Item 4. Information on the Company—A. History and Development of the Company—Recent Developments—Acquisition of Oi Group's UPI Mobile Business."

The economic and regulatory environment faced by some relevant telecommunications companies in Brazil, such as Oi, Sercomtel, a local phone and Internet service provider in the state of Paraná, and Sky, could also be expected to encourage the consolidation trend or even the entry of a new competitor in the Brazilian telecommunications market. In 2018, via a new resolution, Anatel reduced one of the main regulatory barriers to consolidation in the mobile market.

Resolution No. 703/2018 changed the spectrum cap regulation, which increased the amount of spectrum bandwidth an operator is allowed to retain, depending on frequency range and applicable antitrust measures. If such consolidation occurs, it may result in increased competition within our market. We may be unable to adequately respond to pricing pressures resulting from consolidation in our market, adversely affecting our business, financial condition and results of operations. We may also consider engaging in merger or acquisition activity in response to changes in the competitive environment, which could divert resources away from other aspects of our business.

In this regard, potential acquisitions have inherent risks such as increasing leverage and debt service requirements, combining company cultures and facilities, potential exposure to successor liability, and the need to raise additional capital, which may not be possible at that time. Any of these and other factors could adversely affect our ability to achieve the anticipated cash flows at acquired operations or realize other anticipated benefits of acquisitions, which could negatively affect our reputation or operations.

We may face difficulties responding to new telecommunications technologies.

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

- shorter time periods between the introduction of new telecommunication technologies and subsequent upgrades or replacements;
- the expansion of 4G technology, and the introduction of improvements thereto, also known as 4.5G, along with future development of 5G technology and simultaneous management of multiple technology legacy layers, such as GSM, 3G, and 4G through different spectrum bands, which also involves managing the LTE radio access network, or RAN, sharing agreement among TIM and other companies along with the deployment of the new 5G DSS technology and the development of 5G in its full capabilities, also matched with the simultaneous management of multiple technology legacy layers, such as GSM, 3G, and 4G through different spectrum bands, which also involves managing the LTE radio access network, or RAN, sharing agreement among TIM and other companies (see “Item 4. Information on the Company–B. Business Overview–Site-Sharing and Other Agreements”);
- an increase in market competition in respect of residential fixed ultra-broadband, requiring operators (including former fixed Internet providers which had provided services using copper and coaxial technologies) to accelerate investments in fiber capillarity deployments;
- new customer behaviors, particularly migrating services from voice to data, requiring new planning models and accelerating the evolution of communications to increasingly occur on the IP network;
- ongoing improvements in the capacity and quality of digital technology available in Brazil;
- the launch of voice over LTE, known as VoLTE, which increase significantly the quality of voice calls and allows companies to traffic voice as data through their 4G networks;
- the beginning of the deployment of a new technology in our mobile network, commercially called as 5G DSS (Dynamic Spectrum Sharing). 5G DSS is a new feature that allows the deployment of LTE and 5G in the same frequency band and dynamically allocates radio resources between the two technologies based on user demand. This technology brings some benefits like a smoothing handover between 4G and 5G networks, a correct Time-to-Market for the launching of the 5G, technology, and a better use of the spectrum between technologies as the penetration of 5G terminals increases, without the need for a spectrum refarming;
- the expansion of the Internet of Things, or IoT, technology in all of its forms and applications, requiring the creation of new platforms enabling its operation in new areas of the value chain. In this sense, we are strengthening the IoT ecosystem with new partnerships and expanding the monetization of the customer base, leading in the agribusiness vertical and expanding our participation in it; also through the partnership with FCA (Fiat Chrysler Auto), through a customized data solution for their connected cars, etc.;
- the forthcoming introduction of 5G technology, which creates specific demands on bandwidth and performance, and takes advantage of network virtualization, distributed cloud at the wireless edge, and allows multiple logical networks to run on top of a shared physical network infrastructure, known as network slicing, for traffic control in a service-based architecture;
- continued auction of licenses for the operation of additional bandwidth;
- the development of cloud solutions to provide platform as a service (PaaS), software as a service (SaaS), or infrastructure as a service (IaaS), in order to drive down costs;
- the introduction of artificial intelligence, or AI, and machine learning in order to use resources more efficiently, reduce spending and increase agility;
- the development of user interface, or UI, and user experience, or UX, technology; and
- the widespread implementation, in the near future, of Embedded Subscriber Identity Module, or eSIM, technology, which is a small microchip built into phones as an alternative to the conventional physical SIM

card setup, and which will enable our customers to switch faster to other providers, thereby increasing competition.

We may be unable to keep pace with these technological changes, which could affect our ability to compete effectively, and the investment required to adopt these new technologies will be significant, both of which could have a material adverse effect on our business, financial condition and results of operations.

Our operations depend on our ability to efficiently operate our systems and controls that are subject to failure that could affect our business and our reputation.

Our success largely depends on the continued and uninterrupted performance of our controls, network technology systems and of certain hardware. Our technical infrastructure (including our network infrastructure and information technology, or IT, systems for mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. An unexpected increase in volume on our network and systems could cause them to malfunction, such as in periods of increased demand or unexpected circumstances that may reduce our ability to service our infrastructure, such as in a health crisis similar to the current COVID-19 pandemic. Our controls are dependent, not exclusively, on these technological systems and are also subject to the interruptions and failures. Unanticipated problems with our controls, or at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our levels of customer satisfaction, our reputation and compliance with certain of our regulatory obligations.

Our availability indicators, repair performance and installation of new accesses/projects can be impacted by the effects of increased absenteeism in the field workforce and our experts teams in technology, or even by the imposition of Lockdown by COVID-19 that prevents or hinders the displacement and access of field maintenance teams to equipment stations.

We may have our supply chain for technological product inputs (like spare parts, transmission and commutation equipment, handsets and modems) impacted by any delay in the manufacturing process of vendors in their countries of origin, due to a new wave of COVID-19 that imposes a total Lockdown.

Our operations and reputation could be materially negatively affected by cyber-security threats or our failure to comply with new data protection laws, mainly the Brazilian General Data Protection Law (Law No. 13,709/2018), or the LGPD, which came into effect on September 18, 2020, following the President of Brazil's veto of article 4 of Provisional Measure No. 959/2020, which established that the LGPD would only come into effect on May 3, 2021. However, the administrative sanctions provisions of LGPD will only become enforceable as of August 1, 2021, pursuant to Law No. 14,010/2020. Once the administrative sanctions of the LGPD become enforceable, cybersecurity incidents and data breach or leakage events may subject us to the following penalties: (1) warnings, with the imposition of a deadline for the adoption of corrective measures; (2) a one-time fine of up to 2% of gross sales of the company or a group of companies limited to a maximum amount of R\$50,000,000 per violation; (3) a daily fine, up to a maximum amount of R\$50,000,000 per violation; (4) public disclosure of the violation; (5) the restriction of access to the personal data to which the violation relates, until corrective measures are implemented; (6) deletion of the personal data to which the violation relates; (7) partial suspension of the databases to which the violation relates for up to 12 months, until corrective measures are implemented; (8) suspension of the personal data processing activities to which the violation relates for up to 12 months; and (9) partial or full prohibition on personal data processing activities. The postponement of the administrative sanctions does not prevent the competent authorities from overseeing activities or enacting additional rules to be complied with prior to such effectiveness date, nor does it prevent individual or collective lawsuits based on violation of data subject's rights and subject to civil liability. Any proceeding or action and related damages could be harmful to our reputation, force us to incur significant expenses, divert the attention of our management, increase our costs of doing business or result in the imposition of financial penalties.

In addition, Decree No. 10,474/2020 created the regulatory agency of the National Data Protection Authority, or ANPD. The ANPD must ensure the protection of personal data and will deal with cases regarding commercial and industrial secrets in Brazil.

ANPD is also responsible for developing guidelines for the Protection of Personal Data and Privacy National Policy and for inspecting and applying sanctions in the event of data breaches. ANPD also fosters studies on national and international practices for the protection of personal data and privacy and also encourages the adoption of standards applicable to a variety of services and products seeking to ensure owners have control over their personal data, according to the activities of those involved. Moreover, ANPD can issue regulations and procedures to protect personal data and privacy, as well as responsible for assessing the impact of personal data protection in scenarios that may be deemed as a high risk to personal data protection principles. As a result of ANPD's new regulations and procedures, we may be required to change our business practices and implement additional measures to adapt our personal data processing activities. This could adversely affect our business, financial condition, or results of operations. We cannot assure you that our LGPD compliance efforts will be deemed appropriate or sufficient by regulatory authorities or by courts.

The company is performing a deep-gap analysis in order to identify the main problems and, based on this analysis, intends to implement a master plan to achieve full compliance with the new LGPD requirements. However, deficiencies in the full adoption of data security measures, implementing personal data processing and retention requirements and reporting data measures within a narrow mandatory time frame could lead to disputes with data protection authorities, fines or harm to our reputation.

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure that we will be able to successfully operate and upgrade our information and processing systems or that they will continue to perform as expected without any failure. A severe failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and results of operations.

Our business is dependent on our ability to expand our services while maintaining the quality of the services provided and a positive customer experience.

Our business as a telecommunications services provider depends on our ability to maintain and expand our telecommunications services network. We believe that our expected growth will require, among other aspects:

- continuous development of our controls and operational and administrative systems;
- efficiently allocate our capital;
- increasing marketing activities;
- improving our understanding of customer wants and needs;
- continuous attention to service quality;
- a positive customer experience;
- attracting, training and retaining qualified management, technical, customer relations, and sales personnel; and
- increased network capacity through new spectrum acquisition and/or more investment in network assets such as 4G and 5G technology.

We believe that these requirements will place significant demand on our managerial, operational and financial resources. Failure to manage successfully our expected growth could reduce the quality of our services and result in

an inadequate customer experience, with adverse effects on our business, financial condition and results of operations.

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

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

We face various cyber-security risks that could result in business losses, including, but not limited to, contamination (whether intentional or accidental) of our networks and systems by third parties with whom we exchange data, equipment failures, unauthorized access to and loss of confidential customer, employee and/or proprietary data by persons inside or outside our organization. We are also exposed to cyber-attacks causing systems degradation or service unavailability, the penetration of our information technology systems and platforms by malicious third parties, and infiltration of malware (such as computer viruses) into our systems.

Cyber-attacks against companies have increased in frequency, scope and potential harm in recent years. Further, the perpetrators of cyber-attacks are not restricted to particular groups or persons. These attacks may be committed by company employees or third parties operating in any region, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective. We may not be able to successfully protect our operational and information technology systems and platforms against such threats. There can be no assurance that we will be successful in preventing cyber-attacks or successfully mitigating their effects. Similarly, there can be no assurance that we or our third-party providers and other contractors will be successful in protecting our customers' personal data and other data that is stored on our and their systems. Further, as cyber-attacks continue to evolve, we may incur significant costs in the attempt to modify or enhance our protective measures or investigate or remediate any vulnerability.

The inability to operate our networks and systems as a result of cyber-attacks, even for a limited period of time, may result in significant expenses to us and/or a loss of market share to other communications providers. The costs associated with a major cyber-attack could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber-security measures and the use of alternate resources, lost revenues from business interruption and litigation. If we are unable to adequately address these cyber-security risks, our operating network and information systems could be compromised, which would have an adverse effect on our business, financial condition, reputation and results of operations. In order to mitigate such risks, we are currently adopting ISO 27001 standard best practices and expect to be certified in the future. As of the date of this annual report, such certification process is still ongoing.

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

Certain of our existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. See "Item 5. Operating and Financial Review and Prospects." The ability of our subsidiary to meet these financial ratios and tests can be affected by events beyond our and their control, and we cannot assure that it will meet those tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements. As of December 31, 2020, we had approximately R\$2,345 million in consolidated outstanding indebtedness, of which 100% was denominated in foreign currency (primarily U.S. dollars), for which we use derivative instruments to offset exposure to foreign currency. If we are unable to meet these debt service obligations, or comply with these debt covenants, we could be forced to restructure or refinance this indebtedness, seek additional equity capital or sell assets.

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

Our business exposes us to a variety of lawsuits and other proceedings brought by or on behalf of consumers in the ordinary course of our operations as a mobile telecommunications provider in Brazil. We are subject to a number of public civil actions and class actions that have been brought against mobile telecommunications providers in Brazil relating principally to the expiration of prepaid usage credits, minimum term clauses, subscription fees and the use of land to install our network sites. These suits include claims contesting certain aspects of the fee structure of our prepaid plans, hybrid (monthly billed fixed price), or so-called Control plans and postpaid plans, which are commonplace in the Brazilian telecommunications industry.

In addition, federal, state and municipal tax authorities have questioned some tax procedures we have adopted, and have raised questions regarding the calculation of the basis for certain sector-specific contributions (FUST and FUNTTEL, as each are defined in “Item 4. Information on the Company–B. Business Overview–Taxes on Telecommunications Goods and Services”). As of December 31, 2020, we are subject to approximately 3,210 tax-related lawsuits and administrative proceedings with an aggregate value of approximately R\$16,986 million classified as “probable loss” and “possible loss” by our legal advisors.

An adverse outcome in, or any settlement of, these or other lawsuits could result in losses and costs to us, with an adverse effect on our business practices and results of operations. For some of these lawsuits, we were not required to and have not established any provision on our statement of financial position or have established provisions only for part of the amounts in controversy, based on our judgments or opinions of our legal counsel as to the likelihood of winning these lawsuits. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See Note 23 to our consolidated financial statements.

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

Telecom Italia S.p.A., or Telecom Italia, as Licensor, and TIM S.A., TIM Participações, which merged into TIM S.A., and Instituto TIM as Licensees, entered into a trademark license agreement, or the Trademark License Agreement, where Telecom Italia granted the Licensees a non-exclusive and non-transferable license of 196 trademarks (including the TIM trademark) to: (i) promote and render Licensees’ services, including co-branded services; (ii) use the trademarks as domain names of websites owned by the Licensees, dedicated to the promotion and/or the rendering of the Licensees’ services; (iii) use the TIM trademark in events, campaigns, commercial partnerships, sponsorship projects and other activities in order to promote Licensees’ services; and (iv) use “TIM” as part of Licensees’ corporate names. The Trademark License Agreement is limited to Brazil and valid until December 31, 2023, unless terminated earlier. Telecom Italia, who owns the rights to the “TIM” trade name, may prevent us from using the TIM trademark by termination of the Trademark License Agreement. The loss of use of the trademark “TIM” may have a material adverse effect on our business and operating results.

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

Our operations depend to a significant extent on the ability of our customers to pay for our services. Under Anatel regulations, we are allowed to undertake certain measures to reduce customer defaults, such as restricting or limiting the services we provide to customers with a history of defaults. If we are unable to undertake measures to limit payment defaults by our subscribers or that allow us to accept new subscribers based on credit history, we will remain subject to outstanding uncollectible amounts, which could have an adverse effect on our results of operations. See “Item 5. Operating and Financial Review and Prospects.”

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

We may be exposed to contingent liabilities due to our outsourcing of certain functions to third-party service providers. Such potential liabilities may involve claims by third-party providers who claim that they are treated as direct employees as well as claims for secondary liability resulting from work place injury, wage parity and

overtime pay complaints. Our financial condition and results of operation may be adversely affected in the event that a material portion of these liabilities are decided against us.

The Brazilian Supreme Court has recently declared the outsourcing of any company's main activities as legal, which indicates a probable favorable outcome regarding the matter. However, it is worth to mention that, regardless of the decision in Supreme Court, we would be subsidiarily and jointly liable with the service provider in connection with any violation of labor obligations related to the outsourced workers.

If the contracting of third party services are considered to involve the main activities of the company, it may be characterized as a direct employment, which would significantly increase our costs and as a result we may be subject to administrative proceedings by the relevant labor authorities and may be required to pay fines to the third party service providers.

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

We rely on various vendors to supply network equipment, mobile handsets and accessories necessary for our business. These suppliers may, among other things, delay delivery periods, increase their prices, limit the amounts they are willing or able to supply to us, or suffer disruptions in their own supply chains. If these suppliers are unable or unwilling to provide us with equipment or supplies on a regular basis, we could face difficulties in carrying out our operations, which could negatively affect our results of operations and limit our ability to execute our agreements. Further, in 2020 we have had to face the negative effects due to the COVID-19 that increased prices and delayed delivery.

Geopolitical, sanitary, financial and sanctions aspects, among others, could cause an interruption of materials and services supply. Supplier exclusivity or dependence increases exposure to risk. Interruption can impact not only the acquisition of new materials and services, but also the maintenance of existing equipment and operations.

Termination and/or non-renewal of current agreements by suppliers or partners, such as SWAP (partnerships with Operators); Indefeasible Rights of Use (IRU); lease of circuits (e.g. EILD, IP Peering, IP Transit and Satellite bandwidth/capacity); co-sites deals with others telecommunications companies and private partners (e.g. Tower Co.); and rights of use with private companies and public authorities, as well as the interruption in the negotiation of biosites and/or sites destined to infrastructure services and rental area may have a material adverse effect on our business.

Furthermore, the constant changes in the telecommunications industry, such as growth of broadband, may result in a limited supply of equipment essential for the provision of services. The restrictions on the number of manufacturers imposed by the Brazilian government for certain inputs pose certain risks, including susceptibility to currency fluctuations and the imposition of customs or other duties for those inputs which are imported. Inputs produced domestically are available from a limited number of domestic suppliers, and accordingly we are highly dependent upon their ability to accurately forecast the domestic demand and manage inventory.

The need to hire many key suppliers requires complex deals, detailed and timely analysis of contractual documents and an integrated, end-to-end management process.

The potential positive impact of 5G networks on multiple industries, specifically the optimization of energy usage; cloud computing; ultrafast broadband; internet of things (IoT); innovation, including self-driving cars, transportation; and factory equipment. The necessary features for a company to benefit from the 5G network supply chain are software-based, and our supply chain is increasingly based on cloud computing and software.

We also rely on certain other telecommunications providers, through contractual agreements with us, to supply key infrastructure and other services, such as Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linhas Dedicadas*), or EILD, interconnection and co-billing (see "Item 4. Information on the Company—B. Business Overview—Site-Sharing and Other Agreements"). Anatel permits such agreements between telecommunications providers in order to avoid unnecessary duplication of networks and infrastructure, and to lower costs and increase penetration of wireless services in Brazil.

Discussions regarding data safety of equipment provided by Chinese suppliers could have side effects across the global ICT sector, also significantly affecting our supply chain, infrastructure deployment and costs, and impacting the future of the industry as a whole.

In June 2016, one telecommunications provider that we maintain a contractual relationship with, Oi, filed for judicial reorganization (a form of bankruptcy protection under Brazilian law), acknowledging its inability to sustain its financial obligations. The judicial reorganization plan was approved at Oi's general shareholders meeting in December 2017, after intense negotiations among credit holders and shareholders, and was judicially ratified in January 2018 subject to certain reservation regarding the terms of the judicial reorganization, mainly regarding Oi's relationship with its creditors. In March 2018, through a joint withdrawal of proceedings, TIM and Oi settled their claims, which were generally related to infrastructure and interconnection, via a dedicated conflict resolution process at Anatel. For additional information regarding recent transactions with Oi, see "Item 4. Information on the Company—A. History and Development of the Company—Recent Developments—Acquisition of Oi Group's UPI Mobile Business."

Our operations could be suspended or interrupted as a result of natural or man-made disasters or other unexpected events.

Our operations may be suspended or interrupted for an indeterminate period in case of adverse events, such as a result of energy shortages, damages to our transmission bases, natural disasters, climate change or other environmental events or natural or man-made disasters, including fire, explosion, storms, geopolitical disruptions, civil unrest or health crises (such as the COVID-19 pandemic) or any other unexpected damage events. Such impacts may present disproportional geographic impacts, which may vary from impacts to a single address to an entire city or region. If we are unable to mitigate or prevent such damages in the event of a natural or man-made disaster and any other unexpected events, the suspension or interruption of our operations could have a material adverse effect on the continuity of our operations, our financial results and the compliance with regulations.

In order to avoid or reduce indeterminate periods of suspension or interruption of operations caused by damages to our transmission bases, natural disasters or any other unexpected events, we have implemented an internal policy aimed at a continuous mapping systemic vulnerabilities in order to improve the selective process of key projects, intended to expand the robustness of the technical network infrastructure and make it gradually more resilient.

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

We make certain investments, such as the procurement of materials and the development of our network infrastructure, based on our forecasts of the amount of demand that customers will have for our services at a later date. However, any major changes in the Brazilian economic scenario may affect this demand and therefore our forecasts may turn out to be inaccurate. As a result, it is possible that we may make larger investments based on demand forecasts than were necessary given actual demand at the relevant time, which may directly affect our cash flow. Unanticipated improvements in economic conditions may have the opposite effect and equally pose a risk.

The management of our cash and our financial investments are also subject to the country's economic conditions. We may make financial allocations in which the results of operations are not as expected, generating lower profitability or costs.

Our governance and compliance processes may fail to prevent regulatory penalties and reputational harm.

We operate in a global environment, as we have agreements with companies all over the world. Our governance and compliance processes, which include the review of internal control over financial reporting, may not prevent future breaches of all applicable legal, accounting or corporate governance standards. We may be subject to breaches of our Code of Ethics, anti-corruption policies and business conduct protocols and to instances of fraudulent behavior, corrupt practices and dishonesty by our employees, contractors or other agents. Our failure to comply with applicable laws and other standards could subject us to fines, loss of operating licenses and reputational harm.

Improper use of our networks could adversely affect our costs and results of operations.

We may incur costs associated with the unauthorized and fraudulent use of our networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of our network could also increase our selling expenses if we need to increase our provision for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Any increase in the improper use of our network in the future could materially adversely affect our costs and results of operations.

We may be unable to implement our plans to expand and enhance our existing networks in Brazil in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.

Our ability to achieve our strategic objectives depends in large part on the successful, timely and cost-effective implementation of our plans to expand and enhance our networks in Brazil. Factors that could affect this implementation include:

- our ability to generate cash flow or to obtain future financing necessary to implement our projects;
- delays in the delivery of telecommunications equipment by our vendors;
- the failure of the telecommunications equipment supplied by our vendors to comply with the expected capabilities;
- delays in obtaining licenses required to carry out construction works and other activities necessary to implement and update our network; and
- delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner.
- Higher than expected auction prices due to competition between bidders and/or to national policy.

Although we believe that our cost estimates and implementation schedule are reasonable, we cannot assure you that the actual costs or time required to complete the implementation of these projects will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected. We employ structured control tools and procedures in order to meet deadlines and avoid impacts on our business and results of operations.

Risks Relating to the Brazilian Telecommunications Industry

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

In July 2018, Anatel published Resolution No. 694/2018, or the New PGMC, revising the general plan for competition goals (*Plano Geral de Metas de Competição*), or PGMC 2012. Under the New PGMC, TIM has been classified as having significant market power in the following relevant markets: (i) mobile network; (ii) national roaming; and (iii) high capacity data transport.

Due to such classification, we are subject to increased regulation under the New PGMC, which could have an adverse effect on our business financial condition, results of operations and compliance with regulations. In the national roaming market, we must also offer roaming services at regulated rates to other mobile providers.

The values of mobile termination rate, or the “Value to Use the Mobile network” (VU-M), are freely negotiated between operators. Anatel, however, would serve as arbitrator in the case of disputes, and Anatel can determine a reference value according to regulatory criteria. From January 2013, the reference values set by Anatel comply with a “glide path”, which led to cost-oriented values to SMP operators, starting as from 2016. On February 24, 2017, considering the glide path provided for by Act No. 6,211/2014, VU-M were again reduced, depending on the Plano

Geral de Autorizações do Serviço Móvel Pessoal (PGA-SMP) Region, to approximately R\$0.03 reais and, on February 24, 2018, it was reduced to R\$0.01.

In December 2018, Anatel published the corresponding Acts Nos. 9,918/2018 and 9,919/2018, which determined the specific reference rates, effective as of February 2020. Before coming into force, Anatel started the revision of these acts and, on February 24, 2020, it published the new Acts Nos. 986/2020 and 987/2020.

Our radio frequency, or RF, authorizations for the 800 MHz, 900 MHz and 1,800 MHz bands that we use to provide PCS services started to expire in September 2007 and are renewable for one additional 15-year period, requiring payment at every two-year period equal to 2% of the prior year's revenue net of taxes, by way of investment under the Basic and Alternative Service Plans, which are intended to increase telecommunications penetration throughout Brazil. Anatel has stated that the revenue on which the 2% payment is based should be calculated as including revenues derived from interconnection as well as additional facilities and conveniences. As a result, we are currently disputing these radio frequency, or RF, authorization renewal payments both administratively and judicially. Although there are administrative procedures still pending on analysis, Anatel has denied the Company's appeals and issued Precedent No. 13, determining that revenues from interconnection as well as additional facilities and conveniences should be considered on the basis of the calculation of the price due to the renewal of the spectrum licenses. Judicially, the matter is also still under dispute. In December 2018, under Judgment No. 706 and No. 707, Anatel approved a new radiofrequency revenue segregation methodology to be applied. The application of this new methodology allows the segregation of significant market power revenues by the percentage of radiofrequency extended in relation to the total of existing radiofrequencies, both expressed in the amount of MHz.

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

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

Our business is subject to extensive government regulation, including any changes that may occur during the period of our authorization to provide telecommunication services. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among others: (i) industry policies and regulations; (ii) licensing; (iii) rates and tariffs for telecommunications services; (iv) competition; (v) telecommunications resource allocation; (vi) service standards; (vii) technical standards; (viii) quality standards; (ix) consumer rights; (x) interconnection and settlement arrangements; (xi) coverage obligations; and (xii) spectrum.

In addition to the rules set forth by Anatel, we are subject to compliance with various legal and regulatory obligations, including, but not limited to, obligations arising from the following: (i) PCS authorizations under which we operate our cellular telecommunications business; (ii) fixed authorizations (local, national long distance, international long distance and multimedia service) under which we operate our telecommunications business; (iii) limited private services authorization under which we operate a private network formed by point-to-point radio communication (*radioenlaces*); (iv) the Consumer Defense Code; (v) the General Telecommunications Law (amended by Law No. 13,879/2019); and (vi) the Data Protection Law (Law No. 13,709/2018, as amended).

In addition, we are also subject to national and international anti-corruption laws. We believe that we are currently in material compliance with our obligations arising out of each of the above referenced laws, regulations and authorizations.

Brazil is a highly competitive mobile market, having four companies operating networks with national coverage, plus other regional players and mobile virtual network operator, or MVNOs. Any potential deals involving such players is likely to be carefully analyzed by CADE and Anatel, on a state-by-state basis.

On December 14, 2020, the offer made by TIM, Vivo (Telefonica Brasil S.A.) and Claro (controlled by America Movil) the competitive bidding to acquire Oi's mobile operations, which include subscribers, spectrum and mobile access sites, for R\$16.5 billion (US\$3.2 billion). The closing of such transaction is subject to the approval of Anatel and the CADE and is expected to occur by the end of 2021.

The approval, even with a weighted division of Oi's assets between the buyers, is still being analysed by competent authorities, CADE and Anatel, as the deal generates different and complex circumstances for the telecommunications market.

Over the last few years, Anatel has instituted certain administrative processes against the Company and other Brazilian telecommunications providers to investigate certain alleged nonconformities related to quality goals and other regulatory obligations. In response to the initiation of such Anatel proceedings, the Company, as well as other active telecommunications companies in the Brazilian market, opted for the negotiation and conclusion of a Term of Conduct Adjustment, or TAC. The TAC aims at the remediation of the underlying causes of the ongoing administrative processes by setting commitments for conduct adjustment and investment on additional projects in general. The TAC was approved by Anatel on August 22, 2019, and on June 19, 2020, our Board of Directors approved the execution of the TAC by the Company. See "Item 4. Information on the Company-B. Business Overview-Regulation of the Brazilian Telecommunications Industry-PCS Regulation."

We cannot assure that we will be able to fully comply with each of the applicable laws, regulations and authorizations or that we will be able to comply with future changes in the laws and regulations to which we are subject. Moreover, compliance with this extensive regulation, the conditions imposed by our authorization to provide telecommunication services and other governmental action may limit our flexibility in responding to market conditions, competition and changes in our cost structure. These regulatory developments or our failure to comply with them could have a material adverse effect on our business, financial condition and results of operations.

The Brazilian government under certain circumstances may terminate our authorizations or we may not receive renewals of our authorizations.

We operate our business under authorizations granted by the Brazilian government. As a result, we are obligated to maintain minimum quality and service standards, including targets for call completion rates, geographic coverage and voice accessibility, data accessibility, voice drop, data drop, data throughput, user complaint rates and completion rates to our call center. Our ability to satisfy these standards, as well as others, may be affected by factors beyond our control. We cannot assure that, going forward, we will be able to comply with all of the requirements imposed on us by Anatel or the Brazilian government. Our failure to comply with these requirements may result in the imposition of fines or other government actions, including, restrictions on our sales and, in an extreme situation, the termination of our authorizations in the event of material non-compliance.

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

These regulations may have an adverse effect on our financial results given the dynamics of our revenues and costs related to interconnection fees. In addition, Anatel may allow more favorable prices to operators without significant market power.

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

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

Our mobile communications business may be harmed as a result of these alleged health risks. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation.

In addition, although Brazilian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services.

Anatel Resolution No. 700/2018 sets limits of emission and exposure for fields with frequencies between 8.3 kHz and 300 GHz, and Anatel Act No. 458/2019 and Law No. 11,934/2009 establish limits related to the magnetic and electromagnetic emissions recommended by the World Health Organization and require that operators have to maintain a record of the measurements of the levels of the magnetic and electromagnetic emissions of each transmitting station.

Any of these or any other additional regulations could adversely affect our business, financial condition and results of operations. Government authorities could pass more restrictive regulation of wireless handsets and base stations as a result of these health concerns, or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business, financial condition and results of operation. We cannot assure you that further medical research and studies will refute a link between the mobile technology in question and these health concerns.

Risks Relating to Brazil

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

Political conditions in Brazil may affect the confidence of investors and the public in general, as well as the development of the economy. Political crises have affected and continue to affect the confidence of investors and the general public, historically resulting in economic deceleration and heightened volatility in the prices of securities offered by companies with significant operations in Brazil. The recent economic instability in Brazil has contributed to a decline in confidence in the Brazilian market, as well as to a deteriorating political environment.

Presidential elections took place in 2018 and the first year of Jair Bolsonaro as president was marked by discussions over the reforms and political instability, whereas the second year of its presidential term was marked by attempts to deal with the current COVID-19 pandemic and consequent economic and social crisis. Despite the approval of the pension plan reform in 2020, the ability of the president and his team to implement new policies and other reforms may reduce investor and market confidence, and as a result we are unable to predict the country's political and economic direction in coming years.

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

The Brazilian government has frequently intervened in the Brazilian economy and occasionally made drastic changes in economic policy. To influence the course of Brazil's economy, control inflation and implement other policies, the Brazilian government has taken various measures, including the use of wage and price controls, currency devaluations, capital controls and limits on imports and freezing bank accounts. We have no control over, and cannot predict what measures or policies the Brazilian government may take or adopt in the future. Our business, financial condition, revenues, results of operations, prospects and the trading price of our securities may be adversely affected by changes in government policies and regulations, as well as other factors, such as: (i) fluctuating exchange rates; (ii) inflation; (iii) interest rates; (iv) fiscal and monetary policies; (v) changes in tax regimes; (vi) liquidity in domestic capital and credit markets; (vii) economic, political and social instability; (viii) reductions in salaries or income levels; (ix) rising unemployment rates; (x) tax policies (including those currently under consideration by the Brazilian Congress); (xi) exchange controls and restrictions on remittances abroad; and (xii) other political, diplomatic, social or economic developments in or affecting Brazil.

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

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

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business and over our prices.

Our business is substantially affected by the tax regime in Brazil on telecommunications goods and services, as disclosed in detail in “Item 4. Information on the Company—B. Business Overview—Taxes on Telecommunications Goods and Services.”

In the past, the tax on financial operations, or IOF, was levied on investments made in the Brazilian financial and capital markets by foreign investors. However, since October 2014, any financial operation related to these foreign investments benefits from a 0% IOF tax rate.

Due to COVID-19, the IOF rates applicable to loans and financing operations were reduced to 0% by Decree No. 10.305, published on April 1, 2020. The 0% rate comprised the operations carried out between April 3, 2020 and November 26, 2020. Later, Decree No. 10.572, published on December 11, 2020, reduced the IOF rates applicable to the same operations mentioned from December 15, 2020 to December 31, 2020.

On July 1, 2015, Decree No. 8,426 came into effect. It restored the obligation of companies to pay *Programa de Integração Social*, or PIS, contributions and *Contribuição Social para o Financiamento da Seguridade Social*, or COFINS, contributions on financial revenues at a combined and cumulative rate of 4.65% (previously set at 0% by Decree No. 5,442/2005). From that date, all financial revenues became taxable, except for financial revenues related to exchange variations of: (i) exportation of goods and services; (ii) obligations undertaken by the company, including loans and financing. Revenues related to hedging transactions on stock exchange values, also maintain the tax rate at 0% as long as it is related to operating activities and the main objective is to protect the rights and goods of the company.

In March 2017, there was a favorable decision of the Brazilian Federal Supreme Court, or STF, published in October, on the composition of the calculation bases of PIS and COFINS. In summary, the court recognized the unconstitutionality of including the major tax applicable to goods and telecommunication services (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual, Intermunicipal e de Comunicação*), or ICMS, in the calculation of PIS and COFINS, deciding in favor of its exclusion.

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

Since January 2018, the tax over Value-Added Services has increased with the inclusion of Value-Added Services revenues in the calculation of Municipal Tax on Services (*Imposto Sobre Serviços*), or ISS, due to Law No. 157/2016, which is a municipality tax which rates vary from 2% to 5%.

There have been relevant modifications in tax legislation in 2018. Since January, 2018, the tax incidence over Value-Added Services has increased with the inclusion of those receivables within the ISS basis of calculation due to Law No. 157/2016, which is a municipality tax with rates varying from 2% to 5%. Also, income tax and social

contribution were regulated by Decree No. 3,000/1999 in addition to other federal laws and decrees. In December of 2018, this decree was substituted by Decree No. 9,580, which consolidates the main provisions related to income tax and social contribution.

Further changes in tax regulations, such as a possible tax reform already mentioned by the new Federal Government or the previously announced increase of the PIS and COFINS tax rates that the Federal Government was studying to implement in order to restore public accounts after the decision held by the STF authorizing companies to exclude the ICMS from the PIS and COFINS basis of calculation, could impact our financial assets and liabilities as well as our pricing, which could have a material adverse effect on our business, financial condition and results of operations.

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

In the recent past, Brazil has experienced high rates of inflation and the government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. The COVID-19 pandemic has increased market volatility, enhanced existing risks and, despite the resulting contraction of economic activity, the Brazilian economy was still subject to high inflation rates during 2020.

Uncertainty regarding certain future government fiscal measures which may be taken to reduce inflation could affect the confidence of investors and the market in general, and, consequently, affect our operating and financial results and increase volatility in the Brazilian capital markets.

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

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

We acquire equipment and handsets from global suppliers, the prices of which are denominated in U.S. dollars. Depreciation of the real against the U.S. dollar may result in a relative increase in the price of our equipment and handsets. Thus, we are exposed to foreign exchange risk arising from our need to make substantial dollar-denominated expenditures, particularly for imported components, equipment and handsets, that we have limited capacity to hedge. See "Item 5. Operating and Financial Review and Prospects."

All our current indebtedness is denominated in foreign currency, mainly in U.S. dollars and subject to cross currency swaps that are tied to Brazilian floating interest rates. Any increase in the interbank deposit certificate (*certificado de depósito interbancário*), or CDI, rate may have an adverse impact on our financial expenses and our results of operations. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

The effects of the weak domestic economy could reduce purchases of our products and services and adversely affect our results of operations, cash flows and financial condition.

Although expectations for a strong global economy recovery, upon the lifting of the COVID-19 related restrictions due to the acceleration of vaccination campaigns worldwide, the expectations for domestic economic recovery are still low when compared to other countries, due to the slower vaccination rate and to concerns regarding the national fiscal policy. The Brazilian economy has gone through a steep recession in recent years, and

there are uncertainties related to the approval of fiscal and political reforms, and to the new policies to be implemented by the current president.

The economy's performance directly impacts our results of operations as a result of certain of our assets and liabilities being subject to inflation adjustment, and if inflation rises, disposable income of families may decrease in real terms, leading to lack of purchasing power among our customer base. In response to such tighter credit, negative financial news or declines in income or asset values, consumers and businesses may postpone spending, which could have a material adverse effect on the demand for our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our growth targets.

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

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

In June 2016, the United Kingdom had a referendum in which the majority voted to leave the European Union (so-called "Brexit"), and the British government will continue to negotiate the terms of its withdrawal. The exit officially occurred on January 31, 2020. Brexit has created significant economic uncertainty in the UK and in Europe, the Middle East, and Asia. In addition, the terms of Brexit, once negotiated, could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose guests, suppliers, and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. These developments, as well as potential crises and other forms of political instability or any other as of yet unforeseen development, may harm our business and the price of our shares and ADSs.

The COVID-19 pandemic added a new source of uncertainty to global economic activity. Authorities around the world have taken measures to try to contain the spread of the disease, since the virus has spread globally. Restrictions will likely remain in place for the unforeseeable future, suppressing economic and social activities, if the contagion rate does not subside. The materialization of these risks has affected global growth and may decrease investors' interest in assets located in Brazil and in other countries in which we do business, which has adversely affected the market price of our securities, possibly making it more difficult for us to access capital markets and, as a result, to finance our operations in the future.

Additionally, we are subject to impacts resulting from political tension between the United States, Iran and Iraq, as well as other related conflicts in the Middle East. If there is an escalation in tensions and sanctions between the United States, Iran, Iraq and possibly European countries, these tensions can generate political and economic instability around the world, directly impacting the capital market.

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

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

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

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

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

Risks Relating to our Common Shares and the ADSs

Our controlling shareholder has power over the direction of our business.

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

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

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

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

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

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our ADSs or common shares in the United States to exercise any preemptive rights in any future capital increase

unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether to file such a registration statement. We cannot assure holders of our ADSs or common shares in the United States that we will file a registration statement with the SEC to allow them to participate in a preemptive rights offering. As a result, the equity interest of those holders in us may be diluted proportionately.

Cash dividends, interest on shareholders' equity and other cash distributions, as well as judgments seeking to enforce our obligations in respect of our shares or ADSs in Brazil will be payable only in reais.

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

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

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

According to Article 26 of Law No. 10,833 of December 29, 2003, which came into force on February 1, 2004, capital gains realized on the disposition of assets located in Brazil by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil. Since January 1, 2017, the rate of the income tax on capital gains accrued by non-Brazilian resident individuals may vary between 15% and 22.5% depending on the capital gain amount. Ultimately, a 25% rate may apply if the capital gain is realized by investors located at Low or Nil Tax Jurisdictions (i.e., a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20% or 17%, depending if the country is aligned with the international standards of fiscal transparency). Although we believe that the ADSs will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833/2003, considering its general and unclear scope and the absence of any judicial guidance in respect thereof, we are unable to predict whether such interpretation will ultimately prevail in the Brazilian courts. See "Item 10. Additional Information-E. Taxation-Brazilian Tax Considerations."

Gains realized by non-Brazilian holders on dispositions of common shares in Brazil or in transactions with Brazilian residents may be exempt from Brazilian income tax, or taxed at a rate that may vary between 15% and 25%, depending on the circumstances. Gains realized through transactions on Brazilian stock exchanges are exempt from the Brazilian income tax, provided that the transactions are carried out in accordance with the Brazilian National Monetary Council's (*Conselho Monetário Nacional*), or CMN's, Resolution CMN 4,373 (that replaced Resolution CMN 2,689) and the foreign investor is not located in Low or Nil Tax Jurisdictions. Gains realized through transactions with Brazilian residents or not executed on the Brazilian stock exchanges are subject to tax at a rate (1) that may vary between 15% and 22.5% depending on the capital gain amount if the investors are located in regular taxation jurisdictions, or (2) of 25% if the capital gain is realized by investors located in Low or Nil Tax Jurisdictions.

Please refer to "Item 10. Additional Information--E. Taxation--Brazilian Tax Considerations--Taxation of Gains."