Telecom Italia Finance Group

Consolidated Financial Statements 2019

Audited Consolidated Annual Accounts as at December 31, 2019, which have been authorized by the Board of Directors held on March 09, 2020

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Directors' report

The Business Units

BRAZIL

The Brazil Business Unit (Tim Brasil group) provides mobile telephone services using UMTS, GSM and LTE technologies. Moreover, with the acquisitions and subsequent integrations into the group of Intelig Telecomunicações (now TIM S.A.), Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.

- TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
  - TIM PARTICIPAÇÕES S.A.
    - TIM S.A.

OTHER OPERATIONS

This Business Unit provides financial assistance to TIM Group companies and the management of liquidity buffer through money market instruments.
As of December 31, 2019:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) is 1.015 million euros.
- The amount of net financial debt is equal to -3.161 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(million euros)	Year 2019	Year 2018
Revenues	**3.937**	**3.943**
EBITDA	**2.444**	**1.455**
EBIT	**1.290**	**552**
Profit (loss) before tax from continuing operations	999	418
Profit (loss) for the year	**791**	**551**
Profit (loss) for the year attributable to Owners of the Parent	519	351
Capital expenditures	**873**	**890**

Consolidated Financial Position Data

(million euros)	31/12/2019	31/12/2018
Total assets	**14.812**	**13.354**
Total equity	**8.780**	**8.206**
Attributable to Owners of the Parent	7.100	6.688
Attributable to non-controlling interests	1.680	1.518
Total liabilities	**6.032**	**5.148**
Total equity and liabilities	**14.812**	**13.354**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-1.691**	**-2.872**

Headcount

	31/12/2019	31/12/2018
Number in the Group at year end	9.699	9.669
Average number in the Group	9.059	9.138

Highlights

In 2019 the Parent's activities continue to be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.
During the year, Brazil Business Unit showed capacity to enhance operating and financial aspects, adjusting its approach and strategy. The focus on execution enabled the development of areas in need of improvement: (i) agility in decision-making; (ii) focus on key business areas; (iii) boost to accountability culture and (iv) recovery of innovation leadership in offers and communication.

ADOPTION OF NEW ACCOUNTING PRINCIPLES

Starting from January 1, 2019, the Group is required to adopt the IFRS 16 principle. For further details please refer to the specific section of the Note "Accounting policies".

To enable the year-on-year comparison of the economic and financial performance for 2019, this Directors Report shows "comparable" financial position figures and "comparable" income statement figures, prepared in accordance with the previous accounting standards applied (IAS 17 and relative Interpretations).

THE MARKET

In the international scenario, the trade war between the US and China remained at the forefront during 2019 and contributed to the volatility seen in international markets, as well as to the reduced growth forecasts for the global economy. This situation eased slightly at the end of the year, as the two main global economies concluded the first phase of a deal, favoring emerging countries as proved by the significant reduction in Brazil's country risk. Nevertheless, in 2019 the Brazilian economy did not meet market expectations, although it closed the year in an optimistic tone.
During 2019, the European stock markets more than recovered the loss occurred at the end of 2018 and closed a record year. The stimulus provided from the ECB lacked on effectiveness on the real market, with the growth rate expectations revised lower or kept stable for most of European countries.

NON-RECURRING EVENTS

In the year 2019, the Group recognized non-recurring net operating income connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. In detail:

Net non-recurring income

(millions of euro)	Year 2019
Other Income – Tax receivable due to changes in base calculation	685
Acquisition of goods and services – Legal Services	-2
Employee benefits expenses - Labor Contingency	-15
Other operating expenses - Civil Contingency	-19
Other operating expenses - Tax Contingency	-19
Other operating expenses – Contractual Losses	-5
Impact on EBITDA	**625**
Impact on EBIT	**625**
Finance expenses - Monetary restatement on labor contingency	-2
Finance expenses - Monetary restatement on tax contingency	-16
Finance expenses - Monetary restatement on civil contingency	-7
Impact on Profit (loss) before tax from continuing operations	**600**
Fiscal impact on above transactions	-204
Reimbursement of withholding on Sofora sale	16
Impact on Profit (loss) from continuing operations	**412**

Other operating income of the year 2019 benefited for 685 million euros related to the recognition of tax credits as result of the tax disputes connected with including the ICMS indirect tax in the basis of calculation of the taxes on PIS and COFINS revenues. On this matter, the BU has been in court since 2006 and reimbursement requests related - as allowed - to the previous five years, and therefore with effect from 2001. The amount includes 407 million euros concerning the recovery of indirect taxes and 278 million euros for monetary restatement, mainly due to inflation thus not to be included in financial items. The use of the recognized tax receivables started from the end of 2019, in compliance with the formal certification procedures established by the Brazilian tax authorities

with a conjectured horizon of three years, and will be subject to taxation; therefore, deferred direct taxes were recognized for an amount of approximately 233 million euros.
Non-recurring charges are mainly related to regulatory disputes and liabilities connected to them, as well as to liabilities with customers and/or suppliers.
The reimbursement of withholding refers to taxes originally paid to the buyer in 2014 and 2016 for the sale of the participation in the Argentinian company Sofora. The tax has been effectively paid to the Argentinian administration in 2019 following official clarifications of the fiscal law applicable and, consequently, the counterparty cashed back the difference of 18 million dollars (16 million euros) to the Parent.

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance of 2019:

- **Consolidated revenues** amounted to 3,9 billion euros, down by 0,2% on the 2018.
- **EBITDA** amounted to 2,4 billion euros, up by 68,0% on 2018.
- **Operating profit (EBIT)** was 1,3 billion euros, up by 133,7% compared to 2018.
- The **Profit for the year attributable to Owners of the Parent** amounted to 519 million euros (351 million euros for the year 2018).
- **Capital expenditures** in 2019 amounted to 873 million euros (890 million euros in 2018).
- **Net financial debt** amounts to -1.691 million euros at December 31, 2019, up of 1.181 million euros compared to the end of 2018 (-2.872 million euros).

Consolidated operating performance

The operating performance of the Group is almost entirely attributable to the Brazil Business Unit.

	Other operations (millions of euros)			Brazil Business Unit (millions of euros)			Brazil Business Unit (millions of reais)			Changes		
	2019	2019 comparable	2018	2019	2019 comparable	2018	2019	2019 comparable (a)	2018 (b)	Amount (a-b)	% (a-b)/b	% organic
Revenues	-	-	-	**3.937**	**3.937**	**3.943**	**17.377**	**17.377**	**16.981**	**396**	**2,3**	**2,3**
EBITDA	**-7**	**-7**	**-11**	**2.451**	**2.153**	**1.467**	**10.820**	**9.505**	**6.316**	**3.189**	**50,5**	**6,8**
EBITDA Margin				62,3	54,7	37,2	62,3	54,7	37,2		17,5 pp	1,6 pp
EBIT	**-7**	**-11**	**-11**	**1.297**	**1.215**	**564**	**5.726**	**5.365**	**2.428**	**2.937**	**121,0**	**7,4**
EBIT Margin				33,0	30,9	14,3	33,0	30,9	14,3		16,6 pp	0,7 pp
Headcount at year end (number)	**10**	**10**	**11**				**9.689**	**9.689**	**9.658**	**31**	**0,3**	**0,3**

	Year 2019	Year 2018
Lines at period end (thousands)	54.447	55.923
ARPU (reais)	23,7	22,5

REVENUES

Revenues are almost entirely related to the Brazil Business Unit.

Revenues for 2019 amounted to 17.377 million reais (3.937 million euros), up by 2,3% on 2018.
Revenues from services totaled 16.597 million reais (3.760 million euros), an increase of 391 million reais (-3 million euros) compared to 16.206 million reais (3.763 million euros) for 2018 (+2,4%).
Revenues from product sales came to 780 million reais, or 177 million euros (775 million reais or 180 million euros for 2018). The increase reflects the change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase sales of new connected devices giving TIM customers access to broadband services on 3G/4G networks as well as to support new retention offerings for higher-value postpaid customers.

Mobile Average Revenue Per User (ARPU) of 2019 was 23,7 reais (5,4 euros), up 5,3% compared to the figure posted for 2018, due to an overall repositioning on the postpaid segment and new commercial initiatives aimed at boosting use of data and the customer's average spending.
Total lines in place at December 31, 2019 amounted to 54,4 million, a decline of 1,5 million compared to December 31, 2018 (55,9 million). The lower figure was driven entirely by the prepaid segment (-2,7 million) and only partially offset by growth in the post-paid segment (+1,2 million), in part due to the consolidation underway in the market for second SIM cards. Postpaid customers accounted for 39,4% of the customer base at December 31, 2019, an increase of 3,2 percentage points on December 2018 (36,2%).

	Year 2019	Year 2018
(millions of reais)		
Net revenues	**17.377**	**16.981**
Service revenues	16.597	16.206
Mobile services	15.648	15.354
Fixed services	949	852
Product revenues	780	775
(thousands)		
Lines at period end	**54.447**	**55.923**
Average Market Lines	**54.962**	**56.966**
(reais)		
Mobile ARPU (mobile services/average market lines/months)	**23,7**	**22,5**

EBITDA

EBITDA totaled 2.444 million euros, of which 2.451 million euros attributable to the Brazil BU.

Comparable EBITDA for 2019 amounted to 9.505 million reais (2.153 million euros), up by 3.189 million reais (687 million euros) year-on-year (+50,5%).
EBITDA for 2019 included 2.760 million reais (625 million euros) of non-recurring net income connecting to the aforementioned recognition of tax credits for an amount of 3.024 million reais (685 million euros) - from the recognition by the Brazilian Federal Supreme Court ("STF") of the unconstitutionality of the inclusion of the ICMS in the calculation base of PIS/COFINS contributions - which were offset by charges for non-recurring expenses, for an amount of 60 million reais (14 million euros), mainly for regulatory disputes and liabilities related to them, as well as to liabilities with customers and/or suppliers.

EBITDA net of the non-recurring component (Organic EBITDA), was equal to 6.745 million reais (1.528 million euros) and calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	Year 2019 comparable	Year 2018	Year 2019 comparable	Year 2018	Amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
EBITDA	**2.153**	**1.467**	**9.505**	**6.316**	**3.189**	**50,5**
+/- Non recurring income/(expenses)	-625	-	-2.760	-2	-2.758	
=Organic EBITDA	**1.528**	**1.467**	**6.745**	**6.314**	**431**	**6,8**

Growth in EBITDA, excluding the aforementioned non-recurring items, was equal to +6,8% and was attributable to both the positive performance of revenues and the benefits delivered by projects to enhance the efficiency of the operating expenses structure.

The changes in the main costs for the BU are shown below:

	(millions of euros)		(millions of reais)		
	2019 comparable (a)	2018 (b)	2019 comparable (c)	2018 (d)	Change (c-d)
Acquisition of goods and services	1.749	1.846	7.721	7.950	- 229
Employee benefits expenses	323	317	1.425	1.364	61
Other operating expenses	521	491	2.301	2.117	184
Change in inventories	-5	-14	-20	-59	39

EBIT

EBIT totaled 1.290 million euros (552 million euros in 2018), an increase of 738 million euros.

Considering Brazil BU, EBIT for 2018 amounted to 5.726 million reais (1.297 million euros).
Comparable EBIT for 2019 rose to 5.365 million reais (1.215 million euros), up by 2.937 million reais, or 652 million euros on the same period of the previous year (2.428 million reais, or 564 million euros).

Net of the non-recurring component, organic EBIT was 2.605 million reais (590 million euros), with a growth of 7,4%, and was calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	Year 2019 comparable (a)	Year 2018 (b)	Year 2019 comparable (c)	Year 2018 (d)	Amount (c-d)	% (c-d)/d
EBIT	**1.215**	**564**	**5.365**	**2.428**	**2.937**	**121,0**
+/- Non recurring income/(expenses)	-625	-	-2.760	-2	-2.758	
=Organic EBIT	**590**	**564**	**2.605**	**2.426**	**179**	**7,4**

PROFIT (LOSS) FOR THE YEAR

The details are as follows:

(million euros)	Year 2019	Year 2018
Profit (loss) for the year	**791**	**551**
Attributable to		
Owners of the Parent	519	351
Non-controlling interests	272	200

CAPITAL EXPENDITURE

All the capital expenditure is referred to the Brazil Business Unit. The BU posted capital expenditures in 2019 of 873 million euros, decreasing by 17 million euros on 2018 (890 million euros). Excluding the impact of changes in exchange rates (-22 million euros), capital expenditure rose by 5 million euros, targeted mainly at the expansion of mobile ultra-broadband infrastructure and the development of the fixed broadband business of TIM Live.

Consolidated financial position and cash flows performance

Non-current assets

Non-current assets are mainly referred to the Brazil Business Unit.

- **Goodwill** decreased by 18 million euros as a result of changes in foreign exchange rates applicable to the Group's Brazilian operations Further details are provided in the Note "Goodwill".
- **Other intangible assets** decreased by 309 million euros representing the balance of the following items:
  - Adjustments for adoption of IFRS 16 (-65 million euros)
  - Capex (+192 million euros)
  - Amortization charge for the year (-418 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of -18 million euros).
- **Tangible assets** decreased by 77 million euros representing the balance of the following items:
  - Adjustments for accounting principles (-195 million euros)
  - Capex (+680 million euros)
  - Depreciation charge for the year (-511 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of -51 million euros).
- **Rights of use third-party assets**: after IFRS 16 (Leasing) was adopted, the Group decided to classify rights of use third-party assets under a specific item of the statements of financial position. At December 31, 2019 they totaled 1.570 million euros. Recognized during the year 2019 were:
  - Investments and increases in finance leasing contracts (+416 million euros)
  - Amortization charge for the period (-236 million euros)
  - Disposals, exchange differences and other changes (for a net balance of -55 million euros).

Consolidated equity

Consolidated equity amounted to 8.780 million euros (8.206 million euros at December 31, 2018), of which 7.100 million euros attributable to Owners of the Parent (6.688 million euros at December 31, 2018) and 1.680 million euros attributable to non-controlling interests (1.518 million euros at December 31, 2018).

Cash flows

The details of Group cash flows are as follow:

(million euros)	Year 2019	Year 2018
Cash flows from (used in) operating activities	1.073	1.284
Cash flows from (used in) investing activities	474	-2.422
Cash flows from (used in) financing activities	-257	-220
Aggregate cash flows	**1.290**	**-1.358**
Net foreign exchange differences on net cash and cash equivalents	-12	-67
Net cash and cash equivalents at beginning of the year	**1.359**	**2.717**
Net cash and cash equivalents at end of the year	**2.649**	**1.359**

Net financial debt

The following table shows the net financial debt of the Group:

(million euros)	**Other operations**			**Brazil Business Unit**		
	31/12/2019	31/12/2019 comparable	31/12/2018	31/12/2019	31/12/2019 comparable	31/12/2018
Non-current financial liabilities	1.747	1.747	1.695	1.669	483	510
Current financial liabilities	397	397	850	499	316	200
Total gross financial debt	**2.144**	**2.144**	**2.545**	**2.168**	**799**	**710**
Non-current financial assets	-1	-1	-1	-33	-33	-36
Current financial assets	-3.419	-3.419	-3.363	-658	-658	-435
Net financial debt as per ESMA	**-1.276**	**-1.276**	**-819**	**1.477**	**108**	**239**
Non-current financial assets	-1.885	-1.885	-2.285	-7	-7	-7
Net financial debt	**-3.161**	**-3.161**	**-3.104**	**1.470**	**101**	**232**

Further details are provided in the Note "Net Financial Debt".

Main commercial developments of the business units of the Group

Brazil

In 2019, TIM Brasil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network (coverage and availability).
The change in approach had a major impact on the mix of the customer base, mainly in the prepaid segment, resulting in the progressive and marked migration of customers from single service daily plans (voice and/or data) to recurring weekly/monthly plans that bundle voice and data packages with other value-added digital services (music, e-reading and video streaming), all with a view to stabilizing future revenue flows and proactively managing the ongoing consolidation of the market for second SIMs.
The main sales initiatives included:

- offering simplification with a new concept for prepaid segment, that ties recharge to service package (TIM Pre TOP), which offer comprehensive and differentiated solutions for voice and data services, and packages of unlimited social networks for a specific period (two weeks);
- increasing presence in high end segment with an entertainment hub concept. TIM Controle offer includes unlimited social networks (WhatsApp, Facebook messenger, Telegram and Waze) and other unlimited social network for three months (Instagram, Facebook and Twitter), a 5 GB data package and unlimited calls to any carrier, costing 49,99 reais per month;
- in June 2019, TIM innovated again with TIM Black Família. The new portfolio brings the entertainment hub concept, launching the first offer in Brazil that includes a Netflix subscription. Customers will have shared benefits in addition to TIM Music by Deezer, international roaming, data rollover, unlimited social networks and more autonomy to manage data limits. Also, re-introducing device as an important tool to upsell the offer and avoid price/GB war;
- 5G is already in focus worldwide. In Brazil there are still uncertain about when and how the spectrum will be auctioned. Despite that, TIM is assuming a role of protagonist, exploring applications and building a readiness ecosystem to the technology launch, with trials on real network with all vendors involved (Huawei, Ericsson, Nokia) and trials in stores engaging customers with 5G technology;
- Fixed: the focus on investing in FTTH (Fiber To The Home) expansion continues, with higher speed offers and optimal connection stability. TIM began to invest in this type of technology in the fourth quarter of 2017, closing the fourth quarter of 2019 with the number of households with FTTH service representing 28% of the TIM fixed broadband customer base;
- in the last 12 months, TIM Live Internet, the residential broadband offer through the mobile network (WTTX), was launched in 43 new cities.

Main changes in the regulatory framework

Brazil

Revision of the model for the provision of Telecommunications services
In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a "diagnosis" on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law.
Law 13.879 was approved in 2019 and entered into force on October 4, to establish a new regulatory framework for the telecommunications sector in Brazil. It is the major change in 20 years.
The new telecommunications framework allows the fixed telephone concessionaires to adapt their agreements from a concession regime to an authorization regime. This change of concession to authorization must be requested by the concessionaire and it should be approved by the Brazilian National Telecommunications Agency (Anatel). In return, concessionaires must, among other conditions, make investment commitments to expand fixed broadband services, in areas without adequate competition for these services in order to minimize gaps and inequalities between Brazilian areas.
Additionally, it also changes the rules on authorization of radiofrequency uses, establishing subsequent renewals (today was limited to only one) and allows Radiofrequency trading among players (spectrum secondary market). Note that the proceedings for adapting the concession for authorization regime, as well as the definition of the criteria for calculating investment commitments, will still be regulated by the Federal Government and Anatel in the following months.
Another important set of rules was the Decree 9.612/2018 ("Connectivity Plan") and established a series of guidelines for execution of terms of conduct adjustment, onerous granting of spectrum authorization and regulatory acts in general which includes: (i) expansion of high capacity telecommunications transport networks; (ii) increased coverage of mobile broadband access networks; and (iii) broadening the coverage of fixed broadband access network in areas with no internet access offer through this type of infrastructure. It also

establishes that the network implemented from the commitments will be subject to sharing from its entry into operation, except when there is appropriate competition in the respective relevant market.
In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

700 MHz and Analog TV switch off
In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1,7 billion reais (0,5 billion euros at the average exchange rate for the period), and with additional commitments of 1,2 billion reais (0,4 billion euros at the average exchange rate for the period, in four annual installments, adjusted for inflation) as a contribution to the consortium established by the tender ("EAD") for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais, corresponding to 114 million euros at the average exchange rate for the period) was made in April 2015 and another two payments (for a total of 860 million reais, corresponding to around 265 million euros at the average exchange rate for the period) were both made in January 2017, while the final installment (142 million reais, corresponding to 39 million euros) was duly paid in January 2018.
Since 2016, the spectrum has been freed up for mobile operation and in June 2019, all municipalities became available meaning that 100% of Brazilian population can be covered by LTE on 700 MHz

"Marco Civil da Internet" and Network Neutrality
The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law No. 12.965/2014, defined network neutrality as the "duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application". On May 11, 2016, Brazilian Presidential Decree No. 8.771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.
In August 2017, the oversight board ("GS") of the Administrative Council for Economic Defense (CADE) handed down a decision in favor of Brazil's mobile TLC providers, which excluded the imposition of fines in relation to a preliminary investigation into alleged unfair competition in "zero rating" offers and promotions on Internet data consumption. The oversight board heard the depositions of various parties, including the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel, and concluded that Internet business models should not be banned ex-ante, but instead should be monitored comprehensively to prevent any unfair competition outcomes.

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of ex-ante obligations (Plano Geral de Metas de Competição – PGMC).
Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP).
In July 2018, Anatel published the new PGMC revising some points and defining two new markets: (i) interconnection for mobile services; and (ii) high capacity data transmission.
TIM Brasil has been identified as the SMP operator on the: (i) mobile network terminations; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).
The measures adopted for the SMP operator on these markets include the obligation for non-SMP operators to offer national roaming services.
The obligation for vertically integrated landline operators with an SMP to access the copper network (e.g.: leased lines, bitstream and full unbundling) was maintained.
Since 2016, fixed interconnection rates have been based on a cost-oriented approach. In December 2018, Anatel published Acts setting forth MTR which will be valid from 2020 until 2023.

Revision of Service Quality Regulation
In December 2019, Anatel approved the new Telecommunications Services Quality Regulation (RQUAL), based on responsive regulation. By this new model, quality is measured based on three indicators - Quality of Service Index, Perceived Quality Index and User Complaint Index – and it classifies operators into five labels (A to E). On the basis of responsive regulation, Anatel will be able to adopt measures according with the specific case, such as consumer compensation, adoption of action plan or adoption of precautionary measures in order to ensure the improvement of quality standards.
The new regulation is expected to entry into force by 2021 and until the working group is formed by Anatel, operators and the quality assurance support entity (ESAQ) shall define the goals, criteria and reference values,

Anatel will monitor the indicators that maintain similarity with the new ones established in the new RQUAL. The criteria and reference value shall be determined in the coming 12 months by the Working Group.

Strategic Digital Transformation and the Internet of Things
In March 2018, an E-Digital Decree (9.319/2018) has been published identifying around 100 strategic actions aimed at boosting competition and on-line productivity levels in the country, while raising connectivity and digital inclusion levels. The actions seek to address the main strategic issues for the digital economy, including connectivity infrastructure, the use and protection of data, IoT, and cyber-security.
In June 2019, the Decree on the National Plan for Internet of Things (Decree 9.854/2019) was published in order to regulate and encourage this technology in Brazil. It refers to IoT as "the infrastructure that integrates the provision of value-added services with physical or virtual connection capabilities of things with devices based on existing information and communication technologies and their evolution, with interoperability. The decree lists the following subjects as required to further support National Plan for Internet of Things: (i) science, technology and innovation; (ii) international insertion; (iii) vocational education and training; (iv) connectivity and interoperability infrastructure;(v) regulation, security and privacy; (iv) economic viability.

Data protection
On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13.709/2018). The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company's global turnover of the previous financial year.
In December, 2018, Provisional Measure 869/2018 passed by the former Brazilian president amended Law 13.709 to create the National Data Protection Authority, within the structure of the Presidency of the Republic, which implies in a larger control by the State and to, among other topics, extend to 24 months the entry into force of the Law (August 2020), by which date all legal entities will be required to adapt their data processing activities to these new rules.
In July 2019, Provisional Measure 869/2018 was converted into law 13.853, keeping the ANPD, as a federal public administration body, as part of the Executive Branch.

Competition

Brazil

Macroeconomic trends witnessed in the last quarter of 2019 confirm a recovery scenario expected for 2020, although forecasts for 2019 have been progressively decreased throughout the year, especially due to political uncertainty regarding the election process. Thus, main scenario is still a slow economic recovery scenario, after a severe recession notably during 2015-16 period. Unemployment has been falling slowly, while inflation returned to a more contained level (below 4,5% for 2019).
Although some political uncertainty still exists, especially regarding the ability of the new government to fulfill the economic liberal agenda promised during the election process, the market has acknowledged such liberal guidelines presented so far as a pro-business agenda, in the form of a recent hike in Brazilian stock market (Ibovespa +32% in 2019).
Despite improving financial indicators, economic conditions are still challenging, as budget deficit and growing debts (for central government, Federal States and municipalities) present a risk that can only be addressed by structural reforms that need the congress approval. Present government acknowledges that need and put reforms as a top priority for 2020, together with privatization of some companies (like Eletrobras, Telebras, Post offices, DataPrev) to put the economy growing consistently for the coming years and improve investments in infrastructure.
Mobile telecommunications sector has seen some rationality prevailing in the market and in competition, with service providers remaining focused on the development of the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies, especially for the first half of 2018.
In the **Prepaid segment**, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet different needs of customers (unlimited voice calls or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability (together with churn reduction) and ARPU growth. Prepaid base has decreased 7,6%.
In the **Postpaid mobile segment**, growth in the customer base was driven primarily by the growth of the hybrid Controle segment (especially from the migration of former Prepaid customers), although "pure" Postpaid lines has also presented some growth. Based on offer segmentation strategies that introduce distinctions in the use of data services (such as the unlimited use of data for specific apps, such as WhatsApp, Facebook, Twitter, Netflix, etc.), as part of a "More for More" policy that is designed to provide greater price stability and effectively

repositioning the customer base towards higher value deals (voice + data + content). Postpaid base has grown 6,1%.
Service quality is still an element of differentiation. Telecommunication providers that have invested more in the development of 4G networks (coverage and capacity) and in the improvement of processes shaping customers' experience will have a greater ability to apply premium prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content. The top three operators each already have covered more than 90% of Brazilian urban population with 4G (up to dec-2019, last data available), and a percentage of the time with 4G availability above 77% (according Opensignal January 2020 report).
Fixed-line broadband market posted growth of 4,3%, driven mainly by smaller market players (+25,7% YoY), which tend to offer cheaper services mainly in areas in which incumbents have limited infrastructure. As consequence, traditional incumbents are facing a high decrease in their customer base. Penetration rates across the population are still quite low (approximately 47% of households) when compared to several countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.
In this context, since 2017, TIM adopted a business strategy for TIM Live to leverage its fiber network infrastructure, offering Ultra-Broadband internet services, through FTTC and notably FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. Therefore, TIM Live has been increasing its footprint reaching 23 cities by the end of 2019, which is expected to grow even more in the following years. At end of 2019, TIM Live had a customer base of 566 thousand users (a 21,1% YoY growth).
For smaller cities, TIM has launched its WTTx service, which delivers broadband services through the LTE mobile network, leveraging TIM's leading 4G coverage to address increasing demand for residential broadband, especially in areas with poor fixed infrastructure by local incumbent.

Research and development

Brazil

The Architecture & Innovation Technology department is responsible for TIM Participações Research and Development (R&D) activities; its main responsibilities are to define technological innovation for the network and information technology, determine evolutionary needs for new technologies and devices and link architectural guidelines and strategic partnerships, to use the new business models and to ensure the network infrastructure evolution is in line with the corporate strategy.
In December 2019, the Architecture & Innovation Technology department was made up of 52 people, including telecommunications, electrical and electronic, IT and other engineers with professional skills and experience, which cover all areas of network knowledge, meeting the need to innovative and supporting research and development activities.
The creation of TIM Lab was an important step. It is a multi-functional environment focused on innovation, capable of evaluating innovative technologies, products and services, certifying their functional efficiency and performance, developing new models and configurations, to consolidate the innovation flow. TIM Lab plays a strategic role in supporting Credibility Tests and trials, collaborating with the main suppliers and technology partners through knowledge sharing, technological infrastructure for interoperability tests, staff assessment and the definition of technical requirements; in synergy with the R&D department, it facilitates innovation activities and promotes partnerships with universities and research institutes.
In 2019, over 140 validation processes were performed relating to new software, features, solutions, technologies, services and devices. TIM Participações has invested more than 2,7 million reais (0,6 million Eur) in instruments, infrastructures and services and - in the 2020-2022 period - further investments are planned for over 10 million reais (2,3 million Eur).
The Architecture & Innovation Technology department continued to work on projects and initiatives for the evolution of the business of TIM Participações through the recommendation of sustainable and efficient network platforms, as well as "disruptive" models, including anticipating the availability of new services. These projects can be divided into the following macro groups:

- next generation network;
- with positive impact on the environment and society and future internet applications;
- Open Lab Initiatives.

<u>Next generation network projects</u>
The reassignment of the 1.800 MHz, 850 MHz and 2.100 MHz bands from 2G/3G to 4G with a multilayer distribution configuration gives TIM Participações three important competitive advantages:

- a reduction in costs for LTE implementation;
- the increase in the LTE coverage area and the enabling of the Carrier Aggregation strategy, improving the customer experience;

- the best indoor coverage. In addition to the expansion of coverage, use of the 850/1.800/2.100 MHz bandwidths could increase the capacity in cities already covered by the LTE bandwidth at 2,6 GHz, at limited additional cost.

In this scenario, over 96% of current LTE terminals are compatible with the 1.800 MHz, 2.600 MHz bands and other available bands. Therefore, the implementation of the multilayer LTE continues to be an excellent strategy that benefits from the spread of devices.
The implementation of the 700 MHz LTE layer continued to significantly improve coverage expansion and indoor penetration. The actual implementation will comply with the rules of the EAD, so as to manage spectrum cleaning and avoid problems of interference with TV broadcasting services. 86% of TIM Participações current user base of LTE devices is 700 MHz enabled (December 2019).
At the end of December 2019, 2.313 cities had 700 MHz LTE coverage equivalent to over 93% of the urban population; spectrum cleaning was completed in June 2019 in all cities of Brazil; it is expected that by 2021 more than 3.300 covered cities will be covered by TIM Participações in the 700 MHz band.
In 2017, TIM, as part of the IP Multimedia Network Evolution, launched VoLTE (voice over LTE) high definition voice call services onto the market. These call services do not need to go through the switching technology of "legacy" circuits and can be used by 100 approved smartphone models.
In December 2019, this service was enabled in 3.401 cities (data from the Geomarketing report).

<u>Projects with positive environmental and social impacts and future internet applications</u>
The expansion of "RAN Sharing 4G", in partnership with other mobile operators in Brazil, aims to define the architectural requirements, technical assumptions and specifications for the "LTE RAN sharing" solution, optimizing network resources and costs. The RAN sharing agreement allows TIM to promote the evolution of the spread of LTE in the Brazilian campaign, effectively sharing access and backhaul. Currently, 4G RAN Sharing is based on three national partners, expanding the benefits and efficiency of this technical model. Following tests and the consequent activation of energy saving functions and solutions, according to the access technology (2G, 3G and 4G) and coverage conditions, it showed a reduction of up to 10%.
IoT - In 2018, TIM Participações launched the first NB-IoT commercial network in South America, in the city of Santa Rita do Sapucai, to develop innovative services together with the INATEL University (Telecommunication National Institut). Again in 2018, TIM activated NB-IoT coverage in the cities of Itajubá, in collaboration with UNIFEI (Federal University of Itajuba), and Rio de Janeiro.
Two important milestones were achieved in 2019: the activation of an E-SIM (Embedded SIM) platform and the acquisition of an IoT/M2M platform. These two infrastructures will allow TIM Participações to implement an E2E M2M/IoT system, allowing it to promote important innovations and new products, aimed at using the potential of IoT in different vertical sectors.
Agrobusiness - Since 2018, together with Nokia and BR Digital, TIM Participações has been focusing on agro-food potential in Brazil, offering connections in rural areas (not only for business applications but also for the digital inclusion of agrobusiness employees and residents of small towns). One of the projects delivered in April 2018 for Jalles Machado, an energy group in the city of Goianésia, replaced manual reporting with mobile, improving communication between office and field; moreover, it allowed computers on board agricultural machinery to manage information in real time. 812 smartphones and 1.006 company lines were integrated in this project, with 650 smartphones for field work. TIM strengthened its position in relation to vertical agriculture in 2019, with the creation of the ConnectarAgro ecosystem (https://conectaragro.com.br/) which brings together TIM, solution providers for the agro segment and telecommunication solution providers
5G - In April 2018, the "Architecture & Innovation Technology" department completed its research and interference tests in the city of Guaratiba (State of Rio de Janeiro) in the 3,5 GHz band, considered to be the cutting edge 5G band. The aim was to demonstrate that fixed satellite service reception can coexist, without limits, with the use of the 3,5 GHz band.
In June 2019, TIM Participações chose three cities, Florianópolis, Santa Rita do Sapucaí and Campina Grande to test 5G technology. In September, TIM set up its Casa TIM 5G office, in particular for HackTown 2019, the innovation festival sponsored by TIM Participações for the first time. Casa TIM 5G, with a specific ANATEL license, has shown that it can interactively provide accessible solutions (with the arrival of 5G) for health, education, safety, entertainment and games, directly to where people live and work; some demonstrations were developed in collaboration with Ericsson, Qualcomm, Cisco and Inatel, as well as ABB, Intel and LG.

<u>Open Lab initiatives</u>
TIM Participações joined the Telecom Infra Project (TIP) in 2017, an initiative founded by Facebook, SK Telecom, Deutsche Telekom, Nokia, Intel and other companies, which aims to create a new approach to building and implementing the telecommunications network infrastructure. TIM Participações transformed TIM Lab into the first TIP Community Lab in Latin America, available to TIP members to create universal standards for solutions (initially transport networks, Open Optical Packet Transport working group), to overcome the challenges related to interoperability of different supplier products.
In 2018, TIM Participações also joined a new working group within the TIP, together with Vodafone and Telefonica, called DCSG (Disaggregated Cell Site Gateway). This project is an opportunity to define a common set of operator

requirements and coordinate with companies that manufacture devices, which have wider and more flexible capacities and are cheaper.
In June 2019, with Facebook support, TIM Participações organized a Proof of Concepts of IPInfusion's DCSG solution and Core EDGE suppliers and TIP members, to demonstrate the solution's main features.

Human resources

Brazil

The Human Resources Department is structured to ensure the best practices in people management and to support the evolution process at the Group, aligned with the technological transformations and business challenges that include the commitment to sustainability and promotion of diversity and inclusion.
In order to exceed challenges and fetch better results, it is fundamental to rely on an engaged team. Transparency and respect at all levels strengthen the pride of belonging and the clarity about Group direction, as both are differentials for TIM brand.
In 2019, the annual Climate Survey showed significant results such as increased general favorability by 6 p.p., reaching 81%. Among the highlighted factors, compared to 2018, Learning and Development rose +12 p.p., in addition Clarity and Direction (+9 p.p.) and Trust in the Leadership (+8 p.p.) also featured a relevant evolution, which attest the recognition of employees regarding the communication of the strategy and the leadership's commitment to TIM's values.
The results of the climate survey in 2019 consolidate the elevated engagement of the team and indicate an agenda to be prioritized in 2020, including organizational support, which presented significant growth compared to 2018 but still needs attention, confirming the importance of the Renova TIM project started this year, that includes changes and renovation of premises and replacement of equipment.

People
The Brazil BU ended 2019 with about 9.700 employees throughout Brazil. These employees, with their stories and knowledge, represent the intellectual capital of the Group and act as engines for the development of the business. Approximately 70,1% of employees have completed higher education or attend university and 9,8% have postgraduate degrees. The numbers and results show that the Group has a diverse and highly qualified framework to meet the Group's challenges. The workforce is complemented by 210 trainees and 257 young apprentices.

Development and Training
The Group employees have access to training and development, in a structured offer for the individual to evolve within the company and build a successful career. In line with organizational values, their careers are traced from their own professional experiences and knowledge, acquired from the Group's investment. In this regard, the Group invested more than 9 million reais (2 million euros) in training and development of its employees in 2019.
To guide its employees' careers, the Brazil BU maps and monitors individual performance to guide the activities more assertively. In addition to encouraging and providing real growth opportunities, the Group recognizes the dedication and differentiated performance of its professionals through different performance management tools (360º or 270º).
In order to attract the best students and train our future professionals, the Trainee Program brings to TIM young people with energy, determination, drive, team spirit and, especially, interest in challenges and innovation.
As we believe that diversity and inclusion are essential for valuing and engaging people, and also play a fundamental role in the innovation process, we reinforce our position and commitment to the theme through an editorial line of internal and external communication focused on valuing diversity and we brought in TIM Talks, our development week dedicated to all employees, actions with an approach and representativeness of the different dimensions of diversity.
In addition to these initiatives, in July 2019, the People Caring & Inclusion Management area was created with the mission of building and managing policies, programs and initiatives of diversity and inclusion, aligned with the business strategy and organizational culture, valuing the contribution of each employee at TIM. The diversity and inclusion plan provides for the creation of a committee, diversity and inclusion groups and implementation of actions focused on the pillars of gender, LGBTI +, race, generations and people with disabilities. Initial training actions were carried out in 4Q 2019 and the plan in its entirety will be implemented throughout 2020.

Long Term Incentive Plan
The Long-Term Incentive Plan is intended to grant shares or options for the purchase of shares of TIM Participações to employees of the Company and its subsidiaries, thereby seeking to promote the expansion, achievement and success of the corporate goals, and ensuring the alignment of interests of shareholders and management.

On August 5, 2011, April 10, 2014 and April 19, 2018, the Annual Shareholders Meeting of TIM Participações approved the long-term incentive plans; "Plan 2011-2013", "Plan 2014-2016" and "Plan 2018-2020", respectively, grant to the high management and to those who occupy key positions at the Company and its subsidiaries.

Social Responsibility

Brazil

The Brazil BU has Social and Environmental Responsibility Policies that guide actions and initiatives and are based on the principles of the UN Global Compact, a voluntary commitment to which TIM has been a signatory since 2008. The 10 principles of the Global Compact organized in human rights, work, environment and fighting corruption are used as guidelines for conducting the Company's business.
In November 2019, TIM was confirmed for the 12th consecutive year in B3's Business Sustainability Index (ISE), a list with shares of companies that are highly committed to sustainability and corporate governance, continuing to be the telecommunications company for the most consecutive years in the list.
The Company has a Climate Change Policy that establishes guidelines for the management of its emissions of greenhouse gases and also publishes an inventory of its greenhouse gases pursuant to GHG Protocol methodology. In 2019 for the seventh year the inventory was qualified with the gold seal.

<u>TIM Institute</u>
Founded in July 2013, TIM Institute (www.institutotim.org.br) has the mission of developing resources and strategies for the democratization of science, technology and innovation through mathematical and scientific education projects for children and young people and the development of free technologies that contribute to the implementation of public policies.
The actions of the TIM Institute have already reached approximately 500 municipalities in all 26 states and the Federal District, benefiting more than 700.000 people including 500.000 students and 15.000 teachers.
Throughout 2019, the TIM Institute - OBMEP Scholarships were offered to 200 medalists from the Brazilian Public Schools Mathematics Olympiad (OBMEP) who have entered public universities and come from low-income families. The aid to students is the result of the partnership between TIM Institute and the National Institute for Pure and Applied Mathematics (IMPA). In addition to offering scholarships, TIM Institute also sponsors the OBMEP National Awards Ceremony, where medalists from across the country receive recognition for their achievements. The event is attended by ministers and officials and this year took place in July.
Academic Working Capital (AWC) is the entrepreneurial education program developed by TIM Institute that offers mentoring and financial support to college students who want to turn their course conclusion papers into technology-based businesses. Throughout the year, selected students attend workshops and are guided by mentors to develop their businesses. Since its inception in 2015, about 150 projects from 400 university students have been supported by the program. In 2019, three out of five finalists of the Hackbrazil competition - an international competition organized by the Brazil Conference at Harvard & MIT - were AWC participating projects, with Aqualuz winning 2nd place and its founding partner, Anna Luísa Beserra, awarded as an UN Young Champion of the Earth.
Science education is one of Instituto TIM's lines of action. In 2019, TIM Institute continued its partnership with Garatea - ISS, a science and aerospace education program for children. The aim of the project is to awaken student interest and their taste for science in a practical and amusing manner. In July, the winning project of the 2018/2019 Edition of the program left the US Space Agency (NASA) base towards the International Space Station (ISS) and was successfully executed in space. Now the students are evaluating the results of this experiment. In December, the winning project of the 2019/2020 Edition was selected: "The influence of microgravity on lactose degradation and the development of gut flora bacteria" was developed by high school students at Regina Coeli High School (Sorriso-MT). The project will be sent to space in 2020.

<u>Energy</u>
In line with the principles of the Environmental Policy and Climate Change Management, the Brazil BU considers energy efficiency as one of its challenges. The expected increase in energy consumption due to the expansion of the network infrastructure is accompanied by energy efficiency actions. Projects include temporary or permanent shutdown of idle equipment; Decommissioning – shutdown and removal of equipment from the site in order to save energy and free up physical space for new projects, among others.
In addition to investing in energy efficiency, TIM has sought alternative sources of energy. In 2019, TIM consumed over 350 GWh from renewable energy sources, representing about 50% of TIM's consumption. By 2020, the forecast is to increase the share of renewable sources to 60% of the Company's total consumption.
At the end of 2019, TIM reached a total of 1.582 active biosites, that are structures with significant reduction in visual impact which, in addition to telecommunications transmission, add lighting and security via security cameras.

The social investment initiatives include donations, TIM Institute projects and sponsorships. In 2019, more than 10 million reais (2 million euros) were invested in social benefit.

Events subsequent to December 31, 2019

On January 2020, TIM Participações S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2019 and approved on 2019 according to the following schedule:

Payment Date	Reais per share
29/01/2020	0,102353024
24/01/2020	0,156471242

For others details of subsequent events, see the specific Note "Events Subsequent to December 31, 2019".

Business outlook for the year 2020

What is yet to come for the European markets unfortunately is full of uncertainties with a series of events that could bring volatility to the market, such as Brexit tails on trade deal between EU and GB, ECB strategic review, 2020 US elections and the to be discussed "phase two" deal between US and China. On top of all that, is yet to be understood the impact that COVID-19 Outbreaks could mean in terms of global growth forecasted for the year.

In Brazil, the year 2020 may bring sizable opportunities with a quickening economy and the evolution of the consolidation process in the mobile segment, as well as from definitions over how the country sees the 5G technology, the opening of new revenue fronts, and more. This way, the focus on execution and a well-defined strategy will be the key to reach strategic goals.

Main risks and uncertainties

The majority of risks and uncertainty that impact financial markets and industrial arena are beyond the Group's control, therefore risk governance is considered a strategic tool for value creation.
In addition, there have been several major shifts, including, but not limited to, the change in the market environment, the entry of potential new competitors, the start of proceedings by Authorities, and the implementation of new business strategies in the multimedia segment. These risk factors may have unforeseeable repercussions in terms of the strategic choices adopted by the Group and could have an impact on the evolution model adopted in the multimedia market.
The main risks affecting the business activities of the TIF Group are presented below.

Strategic risks

Risks related to macro-economic factors
The Group's economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates.
On the Brazilian market, the expected results may be significantly affected by the macroeconomic and political situation.
In 2019, the Brazilian economy did not meet market expectations, although it closed the year in an optimistic tone amid factors such as a record high for the Ibovespa, the main index on B3 – Brasil, Bolsa, Balcão, which ended the year above 115.000, the SELIC base rate at an all-time low of 4,5% per year and the recovery of the retail sector, which accelerated sharply at the end of the period despite a more sluggish pace during the year.
Said frustration stems from market forecasts in early 2019, pointing to Gross Domestic Product (GDP) growth of 2,5% for the year, according to the first FOCUS report of 2019. However, the last FOCUS report for the period signals modest growth of 1,1%.
Inflation as measured by the Ample Consumer Price Index (IPCA) ended 2019 at 4,31%, the highest annual rate since 2016. IPCA exceeded the midpoint of the target, which was 4,25% for the year. Inflation was mostly impacted by a rise in the price of meat at the end of the year and by an increase in administered prices, such as fuels and electricity.

On the foreign exchange front, the Euro appreciated vis-à-vis the Real in 2019, ending the year at 4,5123 reais per 1 euro, after reaching 4,6856 reais per 1 euro in November. The rate showed strong volatility during the year amid factors such as uncertainty about the Brazilian economy, in addition to international factors, especially the trade war involving the U.S. and China, with mutual taxation on imports. The trade balance ended the year with a 47 billion dollars surplus, down by 19,6% compared to 2018 and the lowest figure in four year.

Risks related to competition
The Brazilian telecommunications market, where TIF Group is engaged through its subsidiary TIM Servicos y Participacoes (TIM BR) is characterized by strong competition that may reduce market share as well as erode prices and margins. Moreover, the telecommunications sector in Brazil is marked by the effective regulation of the National Telecommunications Agency, Anatel.
However, fierce competition in the arena, seen through the presence of more aggressive offers both in terms of contents and level of prices, limited the Group's capacity to pass on the cost increases or to propose adhesion to higher-value offers.
The sector continued the trend of strong growth in data consumption, demanding from the operators the capacity to adapt their networks, facing the challenge of delivering an increasingly robust infrastructure in an environment of more rational investments in projects such as the densification of sites, frequency reframing and the carrier aggregation in two or three frequencies. Last, the growing demand for Fixed Broadband consolidated the view of internet access as an essential resource for the population.

Operational risks

Operational risks inherent in our business relate, on one hand, to possible inadequacies in internal processes, external factors, frauds, employee errors, errors in properly documenting transactions, loss of critical or commercially sensitive data and failures in systems and/or network platforms; and on the other hand, to the possibility of implementing strategies for value creation through the optimization of costs and capital expenditure, which in part could depend on factors beyond the control of the Group, such as the cooperation of external counterparties (suppliers, trade unions, industry associations) and laws and regulations.

Risks related to business continuity
The TIF Group's success depends heavily on the ability to ensure continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets. In particular, the Network Infrastructure and the Information Systems are sensitive to various internal and external threats: power outage, floods, storms, human errors, system failures, hardware and software failures, software bugs, cyber-attacks, earthquakes, facility failures, strikes, fraud, vandalism, terrorism, etc.
TIF, as part of the TIM Group, has adopted a "Business Continuity Model System" framework in line with international standards, to analyze and prevent these risks.

Risks related to the development of fixed and mobile networks
To maintain and expand our customer portfolio in Brazilian market it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high-quality network is necessary to maintain the customer base and minimize terminations to protect the Group's revenues from erosion. The maintenance and improvement of existing installations depend on our ability to:

- deliver network development plans within the time-frames contemplated by business development plans and with the necessary level of effectiveness/efficiency;
- upgrade the capabilities of the networks to provide customers with services that are closer to their needs.

Risks of internal/external fraud
TIF Group, as part of the TIM Group, has an organizational model in place to prevent fraud. The organization is designed to ensure higher risk mitigation levels against illegal acts committed by people inside and outside the organization, which could adversely affect the Group's operating performance, financial position and image.

Risks related to disputes and litigation
TIF Group has to deal with disputes and litigation with tax authorities and government agencies, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of unfavourable settlement for the Group, these issues may, individually or as whole, have an adverse effect, which may even be significant, on its operating results, financial position and cash flows.

Financial risks

TIF Group may be exposed to financial risks, such as risks arising from fluctuations in interest rates and exchange rates, credit risk, liquidity risk and risks related to the performance of the equity markets in general, and – more specifically – risks related to the performance of the share price of participations held by the Group. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, the TIF Group has embedded guidelines defined at central level by TIM Group, which must be followed for operational management, identification of the most suitable financial instruments to meet set goals, and monitoring the results achieved. In particular, in order to mitigate the liquidity risk, the TIM Group aims to maintain an "adequate level of financial flexibility", in terms of cash and syndicated committed credit lines, enabling it to cover refinancing requirements at least for the next 12-18 months.

For further details of financial risks, see the specific Note "Financial risks management".

Regulatory and compliance risks

Regulatory risks
The telecommunications industry is highly regulated. In this context, new decisions by Anatel may lead to changes in the regulatory framework that may affect the expected results of the Group.

Compliance risks
The TIF Group may be exposed to risks of non-compliance due to non-observance/breach of internal (self-regulation, such as, for example, bylaws, code of ethics) and external rules (laws, regulations, new accounting standards and Authority orders), with consequent judicial or administrative penalties, financial losses or reputational damage.
The TIF Group aims to ensure that processes, and, therefore, the procedures and systems governing them, and corporate conduct comply with legal requirements. The risk is associated with potential time lags in making the processes compliant with regulatory changes or whenever non-conformities are identified.

Other risks
Moreover, the business outlook for 2020 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group's control. In this context we highlight the health emergency due to the recent spread of the COVID-19 virus and qualified, as a pandemic by the World Health Organization (WHO). In addition to the worsening of the global macroeconomic scenario and the risk of deterioration of the credit profile of certain customer segments, this pandemic could lead to slowdowns in business activities, resulting from measures issued by national and foreign authorities, the consequent reorganization of the internal work organization with remote control of most activities and limitation of certain types of technical and commercial interventions, difficulties encountered by customers and discontinuity in the supply chain, with negative impacts on the overall results of the Group. The management of this emergency phenomenon requires, also in consideration of the public service provided, the implementation of all activities relating to the operational continuity of business processes with the aim of ensuring the functionality of the services provided and the protection of employees' health.

Group internal control and risk management

TIF Group adheres to the principles and criteria of the TIM Group Corporate Governance Code. Its Internal Control and Risk Management System consists of the set of rules, procedures and organizational structures applied to the entire TIM Group, which TIF Group is part of. This set allows the sound, fair and consistent operation of the Group in line with the pre-established objectives.
At TIM Group level, the Internal Control and Risk Management System involves several components acting in a coordinated way accordingly to their respective responsibilities –the Board of Directors, with the responsibility to direct and provide strategic supervision; the Executive Directors and Management with the responsibility to control and manage; the Control and Risk Committee and the Head of the Group Audit Department, with the responsibility to monitor, control and provide support to the Board of Directors.

Information for investors

Brazil – shares

Regarding the trading of shares issued by Group companies on regulated markets, the ordinary shares of TIM Participações S.A. are listed in Brazil (BOVESPA index).

The ordinary shares of TIM Participações S.A. are also listed on the NYSE (New York Stock Exchange); trading occurs through ADS (American Depositary Shares) that represent 5 ordinary shares of TIM Participações S.A.

Waiver of the obligation to present activities in one report only

The Board of Directors waived the provisions of art. 1720-1 (3) of the Luxembourg law dated as September 10, 2015, as modified by time to time, which allows the Board to present one report only where consolidated annual accounts are prepared.

Alternative Performance Measures

In this Directors' Report and in the Consolidated Financial Statements of the Group for the year ended December 31, 2019, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the trend of operations and financial condition. Such measures, which are also presented in interim financial reports, should, however, not be considered as a substitute for those required by IFRS.

- **EBITDA/EBIT**: these financial measures represent a useful unit of measurement for assessing the operating performance of the Group (considering in particular Brazil BU level). In order to get a more complete and effective understanding, they are also presented in terms of organic changes (amount and/or percentage), excluding, where applicable, the effects of the change in the scope of consolidation and exchange differences. EBITDA/EBIT are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of profits (losses) of associates accounted for using the equity method
EBIT – operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains)on disposals of non-current assets
+	Depreciation and amortization
EBITDA – Operating profit(loss) before depreciation and amortization, Capital gains (losses) and impairment reversal (losses) on non-current assets	

- **EBITDA margin and EBIT margin**: Telecom Italia Finance believes that these margins represent useful indicators of the ability of the Group (considering in particular Brazil BU level) to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analysing the percentage of revenues that are converted, respectively, into EBITDA and EBIT.

- **Capital Expenditures ("Capex")**: Telecom Italia Finance considers CAPEX as relevant measures to understand the Group investments in intangible and tangible nun-current assets. The amount presented corresponds to the sum of columns "addition" in Note "Intangible assets with a finite useful life" and Note "Tangible assets".

- **Net financial debt**: Telecom Italia Finance believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Directors' Report includes a table showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group, divided by operating segment. In addition, Note "Net Financial Debt" details the calculation for the Group.

- **ARPU**: The Group uses Average Revenue Per User (ARPU) as measure to understand the revenue generation capability and growth at the per-customer level. It is equivalent to the total revenue divided by average users number during a period.

Corporate Governance Statement

A description of the Parent Corporate Governance is provided within the statutory accounts of Telecom Italia Finance, available at www.tifinance.lu.

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Consolidated Statements of Financial Position

Assets

(millions of euros)	Note	31/12/2019	31/12/2018
Non-current assets			
Intangible assets		**2.593**	**2.920**
Goodwill	[4]	851	869
Intangible assets with a finite useful life	[5]	1.742	2.051
Tangible assets	[6]	**2.377**	**2.454**
Property, plant and equipment owned		2.377	2.259
Assets held under finance leases	[2][6]	-	195
Right of use third-party assets	[2][7]	**1.570**	**-**
Other non-current assets		**2.957**	**3.231**
Other investments	[8]	70	61
Non-current financial receivables arising from lease contracts	[9]	34	37
Other non-current financial assets	[9]	1.893	2.292
Miscellaneous receivables and other non-current assets	[10]	960	664
Deferred tax assets	[11]	-	177
Total Non-current assets		**9.497**	**8.605**
Current assets			
Inventories	[12]	44	41
Trade and miscellaneous receivables and other current assets	[13]	1.122	833
Current income tax receivables	[11]	72	78
Current financial assets	[9]	**4.077**	**3.797**
Current financial receivables arising from lease contracts		1	-
Securities other than investments, financial receivables and other current financial assets		1.418	2.401
Cash and cash equivalents		2.658	1.396
Total Current assets		**5.315**	**4.749**
TOTAL ASSETS		**14.812**	**13.354**

The accompanying notes are an integral part of these annual accounts.

Equity and Liabilities

(million euros)	Note	31/12/2019	31/12/2018
Equity	[14]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		5.281	4.869
Equity attributable to owners of the Parent		**7.100**	**6.688**
Non-controlling interests		**1.680**	**1.518**
TOTAL EQUITY		**8.780**	**8.206**
Non-current liabilities			
Non-current financial liabilities for financing contracts and others	[15]	1.890	1.915
Non-current financial liabilities for lease contracts	[15]	1.526	290
Employee benefits		1	1
Deferred tax liabilities	[11]	11	-
Provisions	[20]	187	189
Miscellaneous payables and other non-current liabilities	[21]	237	259
Total Non-current liabilities		**3.852**	**2.654**
Current liabilities			
Current financial liabilities for financing contracts and others	[15]	703	1.008
Current financial liabilities for lease contracts	[15]	193	42
Trade and miscellaneous payables and other current liabilities	[20][22]	1.249	1.402
Current income tax payables	[11]	35	42
Total Current Liabilities		**2.180**	**2.494**
TOTAL LIABILITIES		**6.032**	**5.148**
TOTAL EQUITY AND LIABILITIES		**14.812**	**13.354**

The accompanying notes are an integral part of these annual accounts.

Separate Consolidated Income Statements

(million euros)	Note	Year 2019	Year 2018
Revenues	[24]	3.937	3.943
Other income	[25]	708	69
Total operating revenues and other income		**4.645**	**4.012**
Acquisition of goods and services	[26]	-1.453	-1.852
Employee benefits expenses	[27]	-324	-318
Other operating expenses	[28]	-525	-496
Change in inventories		4	14
Internally generated assets	[29]	97	95
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**2.444**	**1.455**
Depreciation and amortization	[30]	-1.165	-915
Gains/(losses) on disposals of non-current assets	[31]	11	12
Operating profit (loss) (EBIT)		**1.290**	**552**
Other income (expenses) from investments			-
Finance income	[32]	437	492
Finance expenses	[32]	-728	-626
Profit (loss) before tax from continuing operations		**999**	**418**
Income tax income (expenses)	[11]	-208	133
Profit (loss) from continuing operations		**791**	**551**
PROFIT (LOSS) FOR THE YEAR		**791**	**551**
Attributable to			
Owners of the Parent		519	351
Non-controlling interests		272	200

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Comprehensive Income

(millions of euros)		Note	Year 2019	Year 2018
Profit (loss) for the period	**(a)**		**791**	**551**
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	**(b=c)**		**9**	**-**
Financial assets measured at fair value through other comprehensive income:	**(c)**		**9**	**-**
Profit (loss) from fair value adjustments		[8]	9	-
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements	**(d=e+f+g)**		**- 99**	**- 598**
Financial assets measured at fair value through other comprehensive income:	**(e)**		**16**	**- 38**
Profit (loss) from fair value adjustments			14	-18
Loss (profit) transferred to the Separate Consolidated Income Statements			2	-20
Hedging instruments:	**(f)**		**1**	**-**
Profit (loss) from fair value adjustments			1	-
Loss (profit) transferred to the Separate Consolidated Income Statements		[32]	-	-
Exchange differences on translating foreign operations:	**(g)**		**- 116**	**-560**
Profit (loss) on translating foreign operations			-116	-560
Other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**		**- 90**	**- 598**
Total comprehensive income (loss) for the period	**(i=a+h)**		**701**	**- 47**
Attributable to				
Owners of the Parent			464	-78
Non-controlling interests			237	31

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Changes in Equity

Changes from January 1, 2019 to December 31, 2019

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2019	**1.819**	**3.148**	**-463**	**1**	**-1.360**	**-**	**-**	**3.543**	**6.688**	**1.518**	**8.206**
Changes in equity during the period:											
Dividends approved	-	-	-	-	-	-	-	-53	**- 53**	-75	**- 128**
Total comprehensive income (loss) for the period	-	-	25	1	-80	-	-	519	**465**	237	**702**
Other changes	-	-	-	-	-	-	-	-	**-**	-	**-**
Balance at December 31, 2019	**1.819**	**3.148**	**- 438**	**2**	**-1.440**	**-**	**-**	**4.009**	**7.100**	**1.680**	**8.780**

Changes from January 1, 2018 to December 31, 2018

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2018	**1.819**	**3.148**	**-7**	**1**	**-968**	**-**	**-**	**2.820**	**6.813**	**1.557**	**8.370**
Adoption of IFRS 15 and IFRS 9	-	-	-419	-	-	-	-	408	-11	-5	-16
Adjusted Balance at January 1, 2018	**1.819**	**3.148**	**-426**	**1**	**-968**	**-**	**-**	**3.228**	**6.802**	**1.552**	**8.354**
Changes in equity during the period:											
Dividends approved	-	-	-	-	-	-	-	-38	**- 38**	-65	**-103**
Total comprehensive income (loss) for the period	-	-	-37	-	-392	-	-	351	**- 78**	31	**- 47**
Other changes	-	-	-	-	-	-	-	2	**2**	-	**2**
Balance at December 31, 2018	**1.819**	**3.148**	**- 463**	**1**	**-1.360**	**-**	**-**	**3.543**	**6.688**	**1.518**	**8.206**

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Cash Flows

(million euros)	Note	Year 2019	Year 2018
Cash flows from operating activities:			
Profit (loss) from continuing operations		791	551
Adjustments for:			
Depreciation and amortization	[30]	1.165	915
Impairment losses (reversals) on non-current assets (including investments)		2	-
Net change in deferred tax assets and liabilities	[11]	188	-194
Losses (gains) realized on disposals of non-current assets (including investments)		-11	-12
Change in inventories		-4	-10
Change in trade receivables and net amounts due from customers on construction contracts		-53	-55
Change in trade payables		-33	16
Net change in current income tax receivables/payables		-2	-20
Net change in miscellaneous receivables/payables and other assets/liabilities and other changes	[10][13]	-970	93
Cash flows from (used in) operating activities		**1.073**	**1.284**
Cash flows from investing activities:			
Total purchase of intangible, tangible and right of use assets on a cash basis		-969	-964
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		1.442	-1.458
Proceeds from sale/repayment of intangible, tangible and other non-current assets		1	-
Cash flows from (used in) investing activities		**474**	**-2.422**
Cash flows from financing activities:			
Change in current financial liabilities and other		-426	599
Proceeds from non-current financial liabilities (including current portion)		607	39
Repayments of non-current financial liabilities (including current portion)		-332	-780
Changes in hedging and non-hedging derivatives		3	-3
Dividends paid		-109	-75
Cash flows from (used in) financing activities		**-257**	**-220**
Aggregate cash flows		**1.290**	**-1.358**
Net foreign exchange differences on net cash and cash equivalents		**-12**	**-67**
Net cash and cash equivalents at beginning of the year	**[9]**	**1.359**	**2.717**
Net cash and cash equivalents at end of the year	**[9]**	**2.649**	**1.359**

Additional Cash Flow Information

(million euros)	Year 2019	Year 2018
Income taxes (paid) received	-29	-52
Interest expense paid	-450	-337
Interest income received	252	269
Dividends received	-	-

The accompanying notes are an integral part of these annual accounts.

Notes to the Consolidated Financial Statements

Note 1 - Form, content and other general information

FORM AND CONTENT

Telecom Italia Finance S.A. (the "Parent" or "TIF") is established in Luxembourg as Société Anonyme under the laws of the Grand Duchy of Luxembourg. The registered office is located at 12, rue Eugène Ruppert, Luxembourg. Parent and its subsidiaries are collectively referred to as the "Group" or "TIF Group".

The ultimate Parent of the Group is TIM S.p.A.

The Group, through its Brazilian's subsidiaries, is principally engaged in providing fixed-line and telephony services to the public. The Group is also involved in providing financial assistance and loans to the ultimate Parent of the Group and its subsidiaries.

The Consolidated Financial Statements of the Group for the year ended December 31, 2019 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS") and were authorized for issue with a resolution of the Board of Directors on March 9, 2020.

Furthermore, during 2019, the Group applied accounting policies consistent with those applied for the previous year, except for the new accounting standard adopted as of January 1, 2019, the impact of which is illustrated in the section "Adoption of the new IFRS 16 standard" of Note 2, to which readers should refer for more details.

The Consolidated Financial Statements for the year ended December 31, 2019 have been prepared on a going concern basis (for further details see Note "Accounting policies").

The Consolidated Financial Statements have been prepared under the historical cost convention except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

In accordance with IAS 1 (Presentation of Financial Statements) comparative information included in the consolidated financial statements is, unless otherwise indicated, that of the preceding years.

The Consolidated Financial Statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the Consolidated Statement of Financial Position has been prepared by classifying assets and liabilities according to the "current and non-current" criterion;
- the Separate Consolidated Income Statement has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the Group's industrial sector;
- the Consolidated Statement of Comprehensive Income includes the profit or loss for the year as shown in the Separate Consolidated Income Statement and all other non-owner changes in equity;
- the Consolidated Statement of Cash Flows has been prepared by presenting cash flows from operating activities according to the "indirect method", as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, according to IAS 1 (paragraphs 97 and 98), certain expense and income items that are material in terms of nature and amount are separately disclosed in the notes to the separate consolidated income statement. Specifically, such items include: income/expenses arising from the disposal of property, plant and equipment, business segments and investments; expenses stemming from company reorganization and streamlining processes and projects, also in connection with corporate transactions (mergers, spin-offs, etc.); expenses resulting from litigation and regulatory fines and related liabilities; other provisions and related reversals; costs for the settlement of disputes; items connected to prior-year adjustments; impairment losses on goodwill and/or other tangible and intangible assets.

SEGMENT REPORTING

An operating segment is a component of an entity:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In particular, the operating segments of the Group are organized according to the specific businesses.
The term operating segment is considered synonymous with Business Unit.

The operating segments of the Group are as follows:
- Telecommunications (or Brazil Business Unit): includes mobile and fixed telecommunications operations in Brazil;
- Other Operations: includes TI Finance, that provides financial assistance to TIM Group companies.

For these Business Units, the Group has identified Chief Operating Decision Makers (CODMs) within the directors for each segment.

Note 2 - Accounting policies

GOING CONCERN

The Consolidated Financial Statements for the year ended December 31, 2019 have been prepared on a going concern basis as there is the reasonable expectation that the Group will continue its operational activities in the foreseeable future (and in any event over a period of at least twelve months).
In particular, the following factors have been taken into consideration:
- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Group are exposed:
  - macroeconomic changes in the European and the Brazilian markets, as well as the volatility of financial markets in the Eurozone, also as a result of the “Brexit” in the United Kingdom;
  - variations in business conditions also related to competition;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group's credit rating by rating agencies);
- the optimal mix between risk capital and debt capital;
- the policy for financial risk management (market risk, credit risk and liquidity risk) as described in the Note "Financial risk management".

Based on these factors, the Management believes that, at the present time, there are no elements of uncertainty regarding the Group’s ability to continue as a going concern.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of all subsidiaries from the date on which control over such subsidiaries commences until the date on which control ceases.
The date of all the subsidiaries’ financial statements coincides with that of the Parent.
Control exists when the Parent has all the following:
- power over the investee, which includes the ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee’s returns;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor’s returns.

The Parent assesses whether it controls an investee if facts and circumstances indicate that there are changes in one or more of the three control elements.
In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Under IFRS 10 (Consolidated financial statements), the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
All intragroup balances and transactions and any gains or losses arising from intragroup transactions are eliminated upon consolidation.
The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.
Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are converted at the exchange rates prevailing at the statement of financial position date (the current method); income and expenses are converted at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.
The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are converted into Euro at the average exchange rates for the year.
Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are converted using the year-end exchange rate.
Under IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.
Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognizes:
  - the assets (including any goodwill) and the liabilities;
  - the carrying amount of any non-controlling interests;
- recognizes:
  - the fair value of the consideration received, if any, from the transaction;
  - any investment retained in the former subsidiary at its fair value at the date when control is lost;
  - any gain or loss, resulting from the transaction, in the separate consolidated income statement;
  - the reclassification to the separate consolidated income statement, of the amounts previously recognized in other comprehensive income in relation to the subsidiary.

In the Consolidated Financial Statements, investments in associates are accounted for using the equity method, as provided by IAS 28 (Investments in Associates and Joint Ventures).
Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises significant influence, but no control or joint control over the financial and operating policies.
Associates are included in the Consolidated Financial Statements from the date that significant influence commences until the date such significant influence ceases. Under the equity method, on initial recognition the investment in an associate is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognized in the investor's income statement. Dividends received from an investee reduce the carrying amount of the investment.
Adjustments to the carrying amount may also be necessary for changes in the investee's other comprehensive income (i.e. those arising from foreign exchange translation differences). The investor's share of those changes is recognized in the investor's other comprehensive income.
If an investor's share of losses of an associate or equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
Gains and losses resulting from "upstream" and "downstream" transactions between an investor (including its consolidated subsidiaries) and its associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate.
Gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in those entities.

INTANGIBLE ASSETS

Goodwill

The goodwill recorded in the Consolidated Financial Statements of the Group refers to the goodwill which was generated in connection with the acquisition of the Brazilian Business Unit.

In accordance with IFRS 3 (Business Combinations), goodwill is recognized in the financial statements at the date of acquisition of control of a business and is determined as the excess of (a) over (b), as follows:

a) the aggregate of:
- the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the fair value at the acquisition date);
- the amount of any non-controlling interest in the acquiree measured proportionately at the non-controlling interest share of the acquiree's identifiable net assets at fair value at the acquisition date;
- in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;

b) the fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, *inter alia*, the following:
- incidental costs incurred in connection with a business combination are charged to the Separate Consolidated Income Statement;
- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the Separate Consolidated Income Statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.
Goodwill initially recognized is subsequently reduced only by cumulative impairment losses (for more details, see the section "Impairment of intangible assets, tangible assets and rights of use assets - Goodwill", below). In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets. These costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits. Capitalized development costs comprise only expenditures that can be attributed directly to the development process for new products and services.
Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way which the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated intangible assets with a finite useful life are recognized as assets, in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.
Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is prospectively recognized in the Separate Consolidated Income Statement.

TANGIBLE ASSETS

Property, plant and equipment

Property, plant and equipment is recognized at purchase or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.
Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized at its present value as a provision in the statement of financial position. These capitalized costs are depreciated and charged to the Separate Consolidated Income Statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess if any, should be recorded immediately in the Separate Consolidated Income Statement, conventionally under the line item "Depreciation".
Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.
The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is prospectively recognized in the Separate Consolidated Income Statement.
Land, including land pertaining to buildings, is not depreciated.

RIGHT OF USE ASSETS

In accordance with IFRS 16, lease liabilities are presented through the recognition of a financial liability in the statement of financial position at the present value of future lease payments, against the recognition of a rights-of-use asset of the leased asset.
On the commencement date of the lease, the right-of-use asset is recognized at cost, including: the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, initial direct costs incurred in negotiating the lease and the present value of the estimated restoration or dismantling costs set out in the lease, less any incentives.
Subsequently, the right-of-use is amortized over the term of the lease (or the useful life of the asset, if lower), subject to impairment and adjusted for any remeasurement of the lease liability.

CAPITALIZED BORROWING COSTS

Under IAS 23 (Borrowing Costs), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.
Capitalized borrowing costs are recorded in the Separate Consolidated Income Statement and deducted directly from the "finance expense" line item to which they relate.

IMPAIRMENT OF INTANGIBLE, TANGIBLE AND RIGHT OF USE ASSETS

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (Impairment of Assets); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.
The test is generally conducted at the end of every year, so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.
For the purpose of verifying its recoverability, goodwill is allocated, from the acquisition date, to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the combination.
If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the Separate Consolidated Income Statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher between the fair value less costs to sell and its value in use.
In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.
The value in use of cash-generating units denominated in foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is converted to euro at the spot rate on the date of the impairment test (in the case of the Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.
For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.
After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with finite useful lives and right of use assets
At the end of each reporting period, the Group assesses whether there is any indication that an asset – whether tangible or intangible with finite useful lives or a right-of-use – may be impaired. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.
If there is any indication that an asset – whether tangible or intangible with finite useful lives or a right of use may be impaired, then its carrying amount is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or right. If it is not possible to estimate the recoverable amount, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the Separate Consolidated Income Statement.
When the reasons for the impairment subsequently cease to exist, the carrying value of the asset/right of use or of the cash generating unit is increased up to the new estimate of the recoverable amount which, however, cannot exceed the amount that would have been determined had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the Separate Consolidated Income Statement.

FINANCIAL LEASES ASSETS

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

FINANCIAL INSTRUMENTS

Business models for financial assets management
For the management of trade receivables, the Group Management has identified the business model “Hold to Collect”. These receivables are financial assets measured at amortized cost, and refer to accounts receivable from users of telecommunications services, from network use (interconnection) and from sales of handsets and accessories. Accounts receivable are recorded at the price charged at the time of the transaction. The balances of accounts receivable also include services provided and not billed (“unbilled”) up to the balance sheet date. Accounts receivable from clients are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less the provision for expected credit losses ("impairment").

As part of managing financial assets other than trade receivables, the Group Management has identified its business models on the basis of how the financial instruments are managed and how their cash flows are used. This is done to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available through the treasuries of Group companies and in accordance with the strategies set forth by the Ultimate Parent TIM.
The business models adopted are:

- Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; they are measured at amortized cost;

- Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; they are measured at fair value through other consolidated comprehensive income (FVTOCI);
- Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; they are measured at fair value through consolidated profit or loss (FVTPL).

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are “solely payments of principal and interest (SPPI)” on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

At initial recognition, those financial asset are measured at fair value plus or minus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. They do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Subsequent measurement changes according to category of financial assets:

- Amortised cost: Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the Consolidated Statement of Income.
- FVTOCI: Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in “Finance income and expenses”.
- FVTPL: A gain or loss on those investments is recognized in profit or loss and presented net within “Finance income and expenses” in the period in which it arises.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or they are transferred and the transfer qualifies for derecognition (therefore, the entity transfers substantially all the risks and rewards of ownership of the financial asset).

Other investments

Other investments (equity investments other than those in subsidiaries and associates) are classified as non-current or current assets if they will be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.

Other investments are classified as “financial assets measured at fair value through consolidated profit or loss” (FVTPL), as current assets.
At the purchase time of each investment, IFRS 9 provides for the irrevocable option to recognize these investments in "financial assets measured at fair value through other consolidated comprehensive income" (FVTOCI) as non-current or current assets.
The other investments classified as “financial assets measured at fair value through other comprehensive income” are measured at fair value; changes in the fair value of these investments are recognized in a special equity reserve under the other components of the statements of comprehensive income (Reserve for financial assets measured at fair value through other comprehensive income), without reclassification to the separate income statement when the financial asset is disposed of or impaired. Dividends, on the other hand, are recognized in the separate consolidated income statements.

Securities other than investments

Securities other than equity investments included among non-current or current assets, depending on the business model adopted and the contractual flows envisaged, fall among financial assets measured at amortized cost, or measured at fair value through other comprehensive income or at fair value though profit or loss.
Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are classified:

- as "financial assets measured at amortized cost" (AC) when held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months);
- as "financial assets measured at fair value through other consolidated comprehensive income" (FVTOCI) when held in the scope of a business model whose objective is to sell the financial asset and/or collect the contractual flows. The "Reserve for financial assets measured at fair value through other consolidated comprehensive income" is reversed to the Separate Consoldiated Income Statement when the financial asset is disposed of or impaired;
- as “financial assets measured at fair value through consolidated profit or loss" (FVTPL) in the other cases or when their cash flows are not SPPI.

Cash and cash equivalents

Cash and cash equivalents are recorded at amortized cost.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired.
The impairment of financial assets is based on the expected credit loss model.
In particular:

- impairment on trade receivables assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. It is recognized as a reduction in accounts receivable based on the profile of the subscriber portfolio, the aging of overdue accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by Management, as adjusted to reflect current and prospective information on macroeconomic factors that affect the customers’ ability to settle the receivables.
- impairment on financial assets other than trade receivables is carried out on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

Further details are provided in the note “Financial Risk management”.

Derivatives

As allowed by IFRS 9, the Group decided to continue to apply the hedge accounting provisions contained in IAS 39, instead of those of IFRS 9.
Derivatives are used by the Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.
In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- at the inception of the hedge, the hedging relationship is formally designated and documented;
- the hedge is expected to be highly effective;
- its effectiveness can be reliably measured;
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.
When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Fair value hedge – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the Separate Consolidated Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the Separate Consolidated Income Statement.
- Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable expected transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for hedging instruments). The cumulative gain or loss is removed from equity and recognized in the Separate Consolidated Income Statement at the same time the hedged transaction affects the Separate Consolidated Income Statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the Separate Consolidated Income Statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the Separate Consolidated Income Statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement at fair value of derivative financial instruments are directly recognized in the Separate Consolidated Income Statement.

Financial liabilities
Financial liabilities include financial payables, including payables for advances on assignments of receivables where the assignment does not transfer substantially all the risks and rewards, as well as other financial liabilities, including derivative financial instruments and liabilities in respect of assets recognized under finance leases recognized in accordance with IFRS 16.
In accordance with IFRS 9, they also include trade and other payables.
Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statements and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.
Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.
Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

INVENTORIES

Inventories are measured at the lower of purchase and production cost and estimated realizable value; the cost is determined using the weighted average cost formula for each movement, while the estimated realizable value is determined by observing general prices at the end of the year. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

EMPLOYEE BENEFITS

Equity compensation plans
The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (i.e. stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (Share-Based Payment).
In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date and is recognized in the Separate Consolidated Income Statement in "Employee benefits expenses" over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated "Other equity instruments". Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is recorded as an adjustments to "Other equity instruments" with a contra-entry to "Employee benefits expenses".
For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to "Employee benefits expenses"; at the end of each year such liability is measured at fair value.

PROVISIONS

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.
If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized in the separate consolidated income statements as "Finance expenses".

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the foreign exchange rate prevailing at the statement of financial position date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the Separate Consolidated Income Statement.

REVENUES

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.
The process underlying recognition of revenues follows the steps set out in IFRS 15:

- identification of the contract: takes place when the parties approve the contract (with commercial substance), identify the respective rights and obligations, this means that: the contract must be legally enforceable, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Group deems receipt of payment as probable;
- identification of the performance obligations: based on the review of its contracts, the Group verified the existence of two performance obligations:(i)sale of equipment and (ii) provision of mobile, fixed and internet telephony services. Revenues recognition starts when, or as, the performance obligation is met when transferring the good or service promised to the customer; the asset is considered transferred when or as the customer obtains control of this asset;
- determination of the transaction price and allocation of the transaction price to the performance obligations: the Group sell commercial packages that combine services and sale of cellular handsets with discounts. In accordance with IFRS 15, the Group is required to perform the discount allocation and recognize revenues related to each performance obligation based on their standalone selling prices. The Group recognizes revenue from each element identified based on its contractual price, with the discount on the sale of handsets being partially allocated to the price of the handset and with an additional portion of the revenue allocated to revenues from sale of handsets at the beginning of the contract. The difference between the amount of revenue and the amount of equipment sales revenue at the beginning of the contract was recognized at the time each as a contractual asset, allocated to service revenue along the contract period.
- recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:
    - Revenues from services rendered
      The principal service revenue derives from monthly subscription, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges and interconnection revenue. The revenue is recognized as the services are used, net of sales taxes and discounts granted on services. This revenue is recognized only when the amount of services rendered can be estimated reliably.
      Revenues are recognized monthly, through billing, and revenues to be billed between the billing date and the end of the month (unbilled) are identified, processed, and recognized in the month in which the service was provided. These non-billed revenues are recorded on an estimated basis, which takes into account consumption data, number of days elapsed since the last billing date.
      Interconnection traffic and roaming revenue are recorded separately, without offsetting the amounts owed to other telecom operators (the latter are accounted for as operating costs).
      The minutes not used by customers and/or reload credits in the possession of commercial partners regarding the prepaid service system are recorded as deferred revenue and allocated to income when these services are actually used by customers.
    - Revenues from product sales
      Revenues from product sales (telephones, mini-modems, tablets and other equipment) are recognized when the performance obligations associated with the contract are transferred to the buyer. Revenues from sales of devices to trading partners are accounted for at the time of their physical delivery to the partner, net of discounts, and not at the time of sale to the end customer, since the Company has no control over the product sold.

      The recognition of revenues can generate the recognition of an asset or liability deriving from contracts. In particular:

- Contract assets are the rights to a consideration in exchange for goods or services that have been transferred to the customer, when the rights is conditioned on something other than the passage of time and are recognised as Other Receivable.
- Contract liabilities are the obligation to transfer goods or services to the customer for which the Group has received (or for which it is due) a consideration from the customer.

All incremental costs related to obtaining a contract (sales commissions and other costs of acquisition from third parties) are recorded as prepaid expenses and amortized over the same period as the revenue associated with this asset. Similarly, certain contract compliance costs are also deferred to the extent that they relate to performance obligations under the customer agreement, i.e. when the customer obtains control over the asset.

RESEARCH COSTS AND ADVERTISING EXPENSES

Research costs and advertising expenses are charged directly to the Separate Consolidated Income Statement in the year in which they are incurred.

FINANCE INCOME AND EXPENSES

Finance income and expenses are recognized on an accrual basis and include: interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

DIVIDENDS

Dividends received from companies other than subsidiaries and associates are recognized in the Separate Consolidated Income Statement in the year in which they become receivable following the resolution by the shareholders' meeting for the distribution of dividends of the investee companies.
Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

INCOME TAX EXPENSES (CURRENT AND DEFERRED)

Income tax expense include all taxes calculated on the basis of the taxable income of the companies of the Group.
Current and deferred income tax expense is calculated using all the elements and information available at the reporting date, taking into account current laws and considering all the elements that could give rise to uncertainties in the determination of the amounts due to the tax authorities, as provided for in IFRIC 23.
Income taxes are recognized in the Separate Consolidated Income Statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax effect is recognized in the relevant equity reserves. In the Statement of comprehensive income, the amount of income taxes relating to each item included as "Other components of the Statement of comprehensive income" is indicated.
The income tax expense that could arise on the remittance of a subsidiary's undistributed earnings is only recognized where there is the actual intention to remit such earnings.
Deferred tax liabilities / assets are recognized using the "Balance sheet liability method". They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the Consolidated Financial Statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carry-forwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable rights of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
Taxes, other than income taxes, are included in "Other operating expenses".

USE OF ESTIMATES

The preparation of Consolidated Financial Statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and assumptions considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the

year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.
The most important accounting estimates which require a high degree of subjective assumptions and judgments are detailed below.

Financial statement line item/area	Accounting estimates
Impairment of goodwill	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. If the market capitalization, taking in account the volatility, is sufficiently high, it is considered as the recoverable value. Otherwise, the valuation process entails the use of methods such as the discounted cash flow method, which uses assumptions to estimate cash flows. In this case, the recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note "Goodwill".
Impairment of intangible and tangible assets with finite useful lives and right of use assets	At the end of each reporting period, the Group assesses whether there is any indication that an asset – whether tangible or intangible with finite useful lives or a right-of-use – may be impaired. Both internal and external sources of information are used for this purpose. Identifying the impairment indicators, estimating the future cash flows and calculating the fair value of each asset requires Management to make significant estimates and assumptions in calculating the discount rate to be used, and the useful life and residual value of the assets. These estimates can have a significant impact on the fair value of the assets and on the amount of any impairment write-downs.
Provision for legal and administrative proceedings	Legal and administrative proceedings are analyzed by the Group Management and internal and external legal advisors. The review takes into account factors such as the hierarchy of laws, case law available, recent court decisions, their relevance to the legal order, as well as payment history. Such reviews involve Management's judgment.
Unbilled revenues	Considering that some billing cut-off dates occur on intermediate dates within the months, at the end of each month there will be revenue already earned by the Group but not effectively billed to the customers. This unbilled revenue is recorded based on estimates which take into account data on usage, the number of days since the last billing date, among other factors
Income tax and social contribution (current and deferred)	Income tax and social contribution (current and deferred) are calculated in accordance with interpretations of the legislation currently in force and IAS12. This process normally includes complex estimates to define the taxable income and temporary differences. In particular, deferred tax assets on income tax and social contribution losses and temporary differences are recognized to the extent that it is probable that future taxable income will be available and can be offset. The measurement of the recoverability of deferred income tax and social contribution losses carry-forward and of temporary differences takes into account the history of taxable income, as well as estimates of future taxable income.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note "Supplementary disclosures on financial instruments".
Leasing	The Group has a significant number of lease agreements in which it is the lessee, whereby with the adoption of accounting standard IFRS 16, the Group Management made certain judgments when measuring the lease liability and the right of use assets, such as: (i) an estimation of the lease term, considering a non-cancellable period and the periods covered by options to extend the lease term, where such exercise depends only on the Group and is reasonably certain; (ii) use of certain assumptions to calculate the discount rate. According to paragraph 18 of IFRS 16, an entity shall determine the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease (if the lessee is reasonably certain to exercise that option) and periods covered by an option to terminate the lease (if the lessee is reasonably certain not to exercise that option). During the non-cancellable lease period, the contract must be enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission of the other party with no more than an insignificant penalty. The Group is not able to readily determine the interest rate implicit in the lease and therefore considers its incremental rate on loans to measure lease liabilities.

The incremental rate is the interest rate that the Group would have to pay when borrowing, for a similar term and with similar collateral, the resources necessary to obtain the asset with similar value to the asset with similar right of use in a similar economic environment. Therefore, this assessment requires management to consider estimates when no observable rates are available. Or when they need to be adjusted to reflect the terms and conditions of a lease. The Company estimates the incremental rate using observable data (such as market interest rates) when available and considers in this estimate aspects that are specific to the Group (such as the cost of the subsidiary's debt). The Group´s average incremental rate is 10,55% for an average lease term.

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2019

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force as from January 1, 2019. Impacts derived from the adoption of IFRS 16 are described in the subsequent paragraph.

Amendments to IFRS 9 (Financial Instruments): Prepayment Features with Negative Compensation
On March 22, 2018, Regulation EU 2018/498 was issued, endorsing some limited amendments to IFRS 9 (Financial Instruments) at EU level.
The amendments allow the entity to measure financial assets that are "prepayable with negative compensation" (e.g. debt instruments where the borrower is allowed to repay early for an amount that may be less than the residual debt including interest due) at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss.
The adoption of these amendments had no effect on the Consolidated Financial Statements at December 31, 2019.

IFRIC 23 – Uncertainty over income tax treatments
IFRS 23 (Uncertainty over income tax treatments) was adopted at the European Union level on October 23, 2018 by IFRS 23 (Uncertainty over income tax treatments) was endorsed by the European Union on October 23, 2018 with Regulation (EU) 2018/1595. This interpretation governs how to deal with uncertainty in the accounting of income taxes. Indeed, IAS 12 Income Taxes specifies how to account for current and deferred tax assets and liabilities, but not how to represent the effects of uncertainty.
For example, there may be doubts:

- on how tax law applies to a particular transaction or circumstance, or
- whether the tax authorities will accept the treatment chosen/applied by the entity. If an entity concludes it is not probable that the taxation authority will accept the tax treatment, the entity must use estimates (most likely or expected value) to determine the tax treatment (taxable profits, tax base, unused tax losses, unused tax credits, tax rates, etc.). The decision must be based on the method that best enables the outcome of the uncertainty to be assessed.

The Group’s Management concluded that the adoption of this interpretation had no effect on the Consolidated Financial Statements at December 31, 2019, since the most important judicial proceedings involving income tax and social contribution are considered by the administration and the legal counsels as being “more likely than not” in the arguments of the judicial spheres.

Amendments to IAS 28 (Investments in Associates and Joint Ventures): long-term interests in associates and joint ventures
On February 8, 2019, Regulation EU 2019/237 was issued, endorsing some limited amendments to IAS 28 (Investments in Associates and Joint Ventures) at EU level.
IFRS 9 excludes investments in associates and joint ventures accounted for in accordance with IAS 28. Accordingly, an entity applies IFRS 9 to other financial instruments held in associates and joint ventures, including long-term interests (e.g. financial receivables) not subject to the equity but which, in substance, are part of the net investment in those associates and joint ventures.
The adoption of these amendments had no effect on the Consolidated Financial Statements at December 31, 2019.

Amendments to IAS 19 - Employee Benefits: plan amendment, curtailment or settlement
On March 13, 2019, Regulation EU 2019/402 was issued, endorsing some limited amendments to IAS 19 (Employee Benefits) at EU level. These changes relate to amendments, curtailments or settlements of defined benefit plans.
The amendments require an entity, in the event of plan amendment, curtailment or settlement, to use the actuarial assumptions of this remeasurement to determine the current service cost and net interest for the remaining reporting period after the plan amendment.

The adoption of these amendments had no effect on the Consolidated Financial Statements at December 31, 2019.

Improvements to the IFRS (2015–2017 cycle)
On March 14, 2019, Regulation EU 2019/412 was issued, endorsing some improvements to the IFRS for the 2015-2017 cycle at EU level. In particular these included:

- Amendments to IFRS 3 Business combinations and to IFRS 11 Joint control agreements: the amendments to IFRS 3 clarify that when an entity, which is already part of a joint operation, obtains control of that operation that constitutes a business, the entity shall remeasure its previously held interest in the joint operation. The amendments to IFRS 11 clarify that when an entity in a joint operation obtains joint control of that operation that constitutes a business, the entity does not remeasure the interests previously held in that joint operation.
- Amendments to IAS 12 Income Taxes: : the amendments clarify that an entity must recognize taxes on dividends in the separate income statement, or in other comprehensive income or equity, depending on how the transaction/event that resulted in the distributable profits that generated the dividends was accounted for.
- Amendments to IAS 23 Borrowing Costs: the amendments clarify that if any specific financing remains outstanding after the associated asset is ready for its intended use or sale, that financing becomes part of the funds that an entity uses when calculating the capitalization rate on general financing.

The adoption of these amendments had no effect on the Consolidated Financial Statements at December 31, 2019.

ADOPTION OF THE NEW IFRS 16 STANDARD

This section provides an overview of IFRS 16 (Leases) main elements and of the impacts arising from its application of the standards starting from January 1, 2019.
IFRS 16 (Leases) endorsed by European Union on October 31, 2017 with the Commission Regulation (EU) 2017/1986.
IFRS 16 replaces IAS 17 (Leases) and relative interpretations (IFRIC 4 Determining whether an Arrangement Contains a Lease; SIC 15 Operating Leases – Incentives; SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).
The new standard establishes the principles for the recognition, measurement, reporting and disclosure of leases, and requires the recognition by lessees of assets and liabilities arising from lease agreements, except for short-term contracts, that is, with a term of 12 months or less, or contracts in which the value of the underlying assets is low. In accordance with this standard, lessees must apply this pronouncement to lease agreements in two ways:

- Retrospectively for each previous period presented in accordance with IAS 8 (Accounting Policies, Changes in Estimates and Correction of Errors); or
- Retrospectively, with the cumulative effect of the initial application of this pronouncement, recognized as an adjustment to the opening balance of retained earnings (or other component of the shareholders' equity, as appropriate) as at the date of initial application.

The Group decided to adopt IFRS16 retrospectively, while the cumulative effect of the initial application is recognized on the date of initial application, that is, January 1, 2019. Additionally, the Group decided to take practical steps in its initial adoption of the standard, such as:

- non-revaluation of financial lease agreements previously recognized according to IAS 17 upon initial measurement of financial lease liabilities, according to the new accounting pronouncement and IFRIC 4;
- exclusion of lease agreements expiring in the next 12 months and unlikely to be renewed by the Group;
- non-application of this new standard to agreements not previously identified as leases, using IAS 17 and IFRIC 4;
- application of a single discount rate to the leasing portfolio with reasonably similar characteristics (such as leasing with a similar remaining leasing period for a similar class of underlying assets in a similar economic setting).

The Group has a significant number of lease agreements under which it is the lessee. Currently, a portion of these contracts are recognized as operating leases, and their payments are recorded on a straight-line basis throughout the period of the contract. The Group has concluded the study of impacts of this new standard on its financial statements, which included:

- an estimation of the lease term, considering a non-cancelable period and the periods covered by options to extend the lease term, where such exercise depends only on the Group and is reasonably certain;
- a detailed review of the nature of the various lease agreements inherent in the telecommunications industry;
- use of assumptions to calculate the discount rate, which was based on the incremental interest rate for the period of the agreement, among other things. Furthermore, given the relevance of the infrastructure

lease agreements, specifically for transmission towers, the Group decided to separately recognize the lease and non-lease components for this class of assets.

The increase in lease liabilities due to the recognition of the right-of-use of the assets results in an increase in the Group net debt, being the depreciation and interest charges recognized in the statement of income as a replacement of the operating lease expenses.

In qualitative terms, the main transactions to be impacted by the new standard include: lease of vehicles, lease of stores and kiosks in shopping malls, lease of sites, land and sharing of infrastructure.

The lease previously classified as a financial lease, using IAS 17, the book value of the right-of-use asset and of the lease liability on the date of initial application of the standard, comprised the book value of the lease asset and of the lease liability immediately prior to the application of this new standard, in accordance with IAS 17. However, for such leases, as determined by the new standard, the Group is required to become to measure the right-of-use asset and the lease liability as from the initial application based on the new standard. Thus, the lease previously measured in accordance with IAS 17 was remeasured as at March 31, 2019, specifically with respect to the exclusion of variable lease payments that depend on an index or a rate, given that the projected inflation took into account for the period of the agreements previously measured in accordance with IAS 17.

Impacts of the adoption of IFRS 16

The principal adjustments arising from the new standard are as follows:

a. Reclassification from intangible assets and assets under finance leases to right of use assets.
b. Recognition of the asset – right-of-use under lease of the lease payments eligible for the new standard.
c. Increase in the Company's net debt due to the recognition of the lease liability as required by the standard.
d. Leasing – infrastructure (network, land and fiber optics).
e. Leasing – stores & kiosks and vehicles.
f. Leasing – administrative buildings and vehicles.
g. Recognition of the depreciation of the assets mentioned above.
h. Tax impact on the adjustments from the new standard.

The impacts of the transition date of January 01, 2019 on the main line items of the statements of financial position are shown below.

(millions of euros)	31/12/2018 historical	Reference	Impacts of IFRS 16	01/01/2019 Restated
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	2.051	a)	-65	1.986
Tangible assets				
Assets held under finance leases	195	a)	-195	-
Right of use third-party assets	-	a)b)	1.444	1.444
TOTAL ASSETS	**13.354**		**1.185**	**14.539**

(millions of euros)	31/12/2018 historical	Reference	Impacts of IFRS16	01/01/2019 Restated
Equity and Liabilities				
Total Equity	8.206		-	8.206
Non-current liabilities				
Non-current financial liabilities	2.205	d) e) f)	1.008	3.213
Current liabilities				
Current financial liabilities	1.050	d) e) f)	177	1.227
TOTAL EQUITY AND LIABILITIES	**13.354**		**1.185**	**14.539**

To enable the year-on-year comparison of the economic and financial performance for year 2019, this Report shows "comparable" financial position figures and "comparable" income statement figures, prepared in accordance with the previous accounting standards applied IAS 17 (Leases) and relative interpretations.

The differences between the commitments existing at December 31, 2018 arising from operating leases (in application of IAS 17) and the lease liabilities recognized in the statement of financial position at January 1, 2019 (in application of IFRS 16) is presented below.

(millions of euros)	
Non-cancellable operating leases at December 31, 2018 (nominal value)	**-**
Land component on finance lease IAS 17 (present value)	124
Real estate contracts (including renewal option effects) (present value)	85
Co-siting contracts (including renewal option effects) (present value)	592
Other contracts (present value)	384
Other lease liabilities at January 1, 2019	**1.185**

The breakdown of the impact of the new accounting standard on key consolidated income statement figures for the year 2019 is shown below.

(millions of euros)	Reference	31/12/2019	31/12/2019 comparable	Impact new standard
Acquisition of goods and services	d)	-1.453	-1.752	299
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**2.444**	**2.146**	**298**
Depreciation and amortization	g)	-1.165	-949	-216
Operating profit (loss) (EBIT)		**1.290**	**1.208**	**82**
Finance income/(expenses)	d)e)f)	-291	-149	-142
Profit (loss) before tax from continuing operations		**999**	**1.059**	**-60**
Income tax income (expense)	h)	-208	-228	20
Profit (loss) for the period		**791**	**831**	**-40**
Attributable to:				
Owners of the Parent		519	546	-27
Non-controlling interests		272	285	-13

The breakdown of the impact of the new accounting standards on the main consolidated statements of financial position figures at December 31, 2019 is shown below.

(millions of euros)	31/12/2019	31/12/2019 comparable	Impact new standard
Assets			
Non-current assets			
Tangible assets			
Property, plant and equipment owned	2.377	2.376	**1**
Right of use third-party assets	**1.570**	**249**	**1.321**
Current assets			
TOTAL ASSETS	**14.812**	**13.490**	**1.322**

(millions of euros)	31/12/2019	31/12/2019 comparable	Impact new standards
Equity and Liabilities			
Total Equity	8.780	8.811	**-31**
Non-current liabilities			
Non-current financial liabilities	3.416	2.230	1.186
Deferred tax liabilities	11	27	-16
Current liabilities			
Current financial liabilities	896	713	183
TOTAL EQUITY AND LIABILITIES	**14.812**	**13.490**	**1.322**

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET ENDORSED BY THE EU

At the reporting date of these Consolidated Financial Statements, the following new standards and interpretations, which have not yet entered into force, had been issued by the IASB.

	Mandatory application starting from
New Standards and Interpretations not yet endorsed by the EU	
Amendments to IFRS 3 (Business combinations)	January 1, 2020
Amendments to IAS 1 and IAS 8 (Definition of Materiality/Current vs non-current)	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Interest-rate benchmark reform: Amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: disclosures)	January 1, 2020
IFRS 17: Insurance contracts	January 1, 2021

The potential impacts on the Group Consolidated Financial Statements from application of these standards and interpretations are currently being assessed.
In particular, with regard to the process of reforming benchmark interest rates, no impact on the hedges documented in Hedge Accounting is expected in 2020.
In particular, the process of replacing IBOR parameters in all markets in which the Group operates will be closely monitored, with simultaneous checks on contracts and fallback clauses of the financial instruments affected by the reform – in line with the developments provided in this area by ISDA and similar bodies – as well as on the related risk exposures, so as to ensure an adequate and timely response to the changes induced by the reform, both at the management and accounting levels.

Note 3 - Scope of consolidation

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

Composition of the Group
The Group holds a majority of the voting rights in all the subsidiaries included in the scope of consolidation.
A complete list of consolidated subsidiaries is provided in the Note "List of companies of the Telecom Italia Finance Group".

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2019, the Group held equity investments in subsidiaries with significant non-controlling interests in TIM Brasil Group.

The figures provided below, stated before the netting and elimination of intragroup accounts, have been prepared in accordance with IFRS and reflect adjustments made at the acquisition date to align the assets and liabilities acquired to their fair value.

TIM Brasil Group – Brazil Business Unit
Non-controlling interests held at December 31, 2019 amounted to 33,4% of the share capital of TIM Participações, which in turn holds 100% of the share capital of the operating company TIM S.A., equivalent to the corresponding share of voting rights.

Financial Position Data TIM Brasil Group

(million euros)	31/12/2019	31/12/2018
Non-current assets	7.538	6.257
Current assets	1.896	1.387
Total Assets	**9.434**	**7.644**
Non-current liabilities	2.104	958
Current liabilities	1.847	1.678
Total Liabilities	**3.951**	**2.636**
Equity	**5.483**	**5.008**
of which Non-controlling interests	*1.681*	*1.518*

Income statement Data TIM Brasil Group

(million euros)	Year 2019	Year 2018
Revenues	3.937	3.943
Profit (loss) for the year	**799**	**586**
of which Non-controlling interests	*272*	*200*

Financial Data TIM Brasil Group
In 2019, aggregate cash flows generated a positive amount of 262 million euros, including a negative exchange rate effect of 12 million euros, without which cash flow would have generated a positive amount of 274 million euros. In 2018, aggregate cash flows generated a negative amount of 512 million euros, partially due to a negative exchange rate effect of 67 million euros, without which cash flow would have generated a negative amount of 445 million euros.

Lastly, again with reference to the TIM Brasil Group, the main risk factors that could, even significantly, restrict the operations of the TIM Brasil Group are listed below:

- strategic risks (risks related to macroeconomic and political factors, as well as risks associated with foreign exchange restrictions and competition);
- operational risks (risks related to business continuity and development of the fixed and mobile networks, as well as risks associated with litigation and disputes);
- financial risks;
- regulatory and compliance risks.

Note 4 - Goodwill

Goodwill is only referred to Brazil Cash Generating unit ("CGU") and shows the following changes during 2019 and 2018:

(million euros)	**31/12/2018**	Increase	Decrease	Impairments	Exchange differences	**31/12/2019**
Brazil	**869**	-	-	-	-18	**851**

(million euros)	**31/12/2017**	Increase	Decrease	Impairments	Exchange differences	**31/12/2018**
Brazil	**972**	-	-	-	-103	**869**

The gross carrying amounts of goodwill and the relative accumulated impairment losses can be summarized as follows:

(million euros)	31/12/2019			31/12/2018		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**1.055**	204	**851**	**1.076**	207	**869**

The figures for the Brazil CGU are stated in euros, converted at the spot exchange rate at the closing date of the financial statements; the carrying amount of goodwill for the CGU corresponds to 3.854 million reais.

Goodwill is not subject to amortization, but it is tested for impairment at least annually. Accordingly, the Group conducted impairment tests on the recoverability of the goodwill. The results showed that the recoverable amount of the assets at December 31, 2019 was higher than the net carrying amount for the Brazil CGU (+2.675 million of euros).
The value used to measure the recoverable amount of the Cash Generating Unit to which goodwill has been allocated is the fair value, based on market capitalisation as of the end of the reporting period. The recoverable amount of the assets was denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.
In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. To make the recoverable amount of the Brazil CGU equal to their net carrying amount the market capitalization should vary of -32%.

Note 5 - Intangible assets with a finite useful life

All intangible assets with a finite useful life in 2019 are referred to Brazil Business Unit.

(millions of euros)	31/12/2018	Adjustment for accounting principles	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2019
Industrial patents and intellectual property rights	**794**	-	196	-318	-	-13	-	32	**691**
Concessions, licenses, trademarks and similar rights	**736**	-65	-10	-99	-	-23	-	478	**1.017**
Other intangible assets with a finite useful life	**2**	-	1	-1	-	-	-	-	**2**
Work in progress and advance payments	**519**	-	5	-	-	2	9	-503	**32**
Total	**2.051**	**- 65**	**192**	**- 418**	**-**	**- 34**	**9**	**7**	**1.742**

(millions of euros)	31/12/2017	Adjustment for accounting principles	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2018
Industrial patents and intellectual property rights	**945**	-	181	-305	-	-98	-	71	**794**
Concessions, licenses, trademarks and similar rights	**556**	-	73	-87	-	-66	-	260	**736**
Other intangible assets with a finite useful life	**35**	-30	2	-2	-	-3	-	-	**2**
Work in progress and advance payments	**920**	-	5	-	-	-88	37	-355	**519**
Total	**2.456**	**- 30**	**261**	**- 394**	**-**	**- 255**	**37**	**- 24**	**2.051**

Industrial patents and intellectual property rights at December 31, 2019 consisted mainly of software application purchased outright and user licenses rights.

Concessions, licenses, trademarks and similar rights at December 31, 2019 mainly related to the remaining cost of telephone licenses and similar rights (955 million of euros).
The "Adjustment for accounting principles" column refer to the IFRS 16 reclassification of the Indefeasible Rights of Use - IRU relating to the Brazil Business Unit (32 million euros) as well as infrastructure use rights in Brazil - “LT Amazonas” (33 million euros). Following the adoption of IFRS 16, these rights of use have been reclassified under the item "Rights of use third party assets".

The other changes mainly include the entry in force of the user licenses for the 700 MHz frequencies in Brazil (472 million euros) and the remeasurement of the value of certain licenses in Brazil, as a result of the Anatel Resolution 695/18 (-25 million euros).

The net carrying amount of telephone licenses and similar rights and their useful lives are detailed below:

Type	Net carrying amount at 31/12/2019 (million euros)	Useful life in years	Amortization charge for 2019 (million euros)
GSM and 3G (UMTS)	90	15	19
4G (LTE)	865	15	73

Work in progress and advance payments at December 2018 included the user rights for the 700 MHz frequencies for 461 million euros, acquired in 2014 by the TIM Brasil Group for a total of 2,9 billion Brazilian reais (around 1 billion euros). Since the assets require a period of more than 12 months to be ready for use, again in 2019, borrowing costs of 9 million euros have been capitalized, as they are directly attributable to the acquisition. The yearly rate used for the capitalization of borrowing costs in Brazilian reais is 6,9%. Capitalized borrowing costs in Brazilian reais have been recorded as a direct reduction of the income statement item “Finance expenses - Interest expenses to banks”. In 2019, the total residual amount of 472 million euros was reclassified to the voice “Concessions, licenses, trademarks and similar rights”.

Amortization and impairment losses have been recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2019 and 2018 can be summarized as follows:

	31/12/2019			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	4.017	-	-3.326	691
Concessions, licenses, trademarks and similar rights	2.201	-	-1.184	1.017
Other intangible assets with a finite useful life	531	-	-529	2
Work in progress and advance payments	32	-	-	32
Total intangible assets with a finite useful life	**6.781**	**-**	**-5.039**	**1.742**

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	3.874	-	-3.080	794
Concessions, licenses, trademarks and similar rights	1.857	-	-1.121	736
Other intangible assets with a finite useful life	130	-	-128	2
Work in progress and advance payments	519	-	-	519
Total intangible assets with a finite useful life	**6.380**	**-**	**-4.329**	**2.051**

Note 6 - Tangible assets (owned and under finance leases)

All tangible assets (owned and under finance leases) in 2019 and 2018 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(million euros)	31/12/2018	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2019
Land	**9**	-	-	-	-	-	-	**9**
Buildings (civil and industrial)	**17**	-	-1	-	-	-	-	**16**
Plant and equipment	**1.947**	489	-459	-	-1	-44	173	**2.105**
Other	**108**	54	-51	-	-3	-3	21	**126**
Construction in progress and advance payments	**178**	137	-	-	-	-2	-192	**121**
Total	**2.259**	**680**	**- 511**	**-**	**- 4**	**- 49**	**2**	**2.377**

(million euros)	31/12/2017	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2018
Land	**10**	-	-	-	-	-1	-	**9**
Buildings (civil and industrial)	**21**	-	-1	-	-	-3	-	**17**
Plant and equipment	**2.059**	580	-449	-	-	-221	-22	**1.947**
Other	**119**	37	-55	-	-2	-13	22	**108**
Construction in progress and advance payments	**213**	12	-	-	-	-22	-25	**178**
Total	**2.422**	**629**	**-505**	**-**	**-2**	**-260**	**-25**	**2.259**

Land comprises both built-up land and available land and is not subject to depreciation.

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use, and light constructions.

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone traffic.

The item **Other** mainly consists of hardware for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

Construction in progress and advance payments refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2019 and 2018 was calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	4%
Plant and equipment	4% - 33%
Other	6,67% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2019 and 2018 can be summarized as follows:

	31/12/2019			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	9	-	-	9
Buildings (civil and industrial)	30	-	-14	16
Plant and equipment	6.554	-	-4.449	2.105
Other	1.074	-	-948	126
Construction in progress and advance payments	121	-	-	121
Total	**7.788**	**-**	**-5.411**	**2.377**

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	9	-	-	9
Buildings (civil and industrial)	30	-	-13	17
Plant and equipment	6.060	-	-4.113	1.947
Other	1.028	-	-920	108
Construction in progress and advance payments	178	-	-	178
Total	**7.305**	**-**	**-5.046**	**2.259**

ASSETS HELD UNDER FINANCE LEASES

These amounted to 195 million euros at December 31, 2018.
Following adoption of IFRS 16, as of January 1, 2019 this figure was reclassified under the new item "Rights of use third-party assets". Please refer to the relevant note for further details.
At December 31, 2018, assets held under financial leases had the following composition and changes:

(million euros)	**31/12/2017**	Additions	Change in financial leasing contracts	Depreciation and amortization	Exchange differences	Other changes	**31/12/2018**
Plant and equipment leased	254	-	6	-14	-26	-31	189
Other	5	-	4	-2	-1	-	6
Total	**259**	**-**	**10**	**-16**	**-27**	**- 31**	**195**

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 can be summarized as follows:

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Plant and equipment leased	240	-	-51	189
Other	10	-	-4	6
Total	**250**	**-**	**-55**	**195**

Note 7 - Right of use third-party assets

After IFRS 16 (Leasing) was adopted, the Group decided to classify rights of use assets under a specific item of the statements of financial position.
At December 31, 2019 they amounted to 1.570 million euros and are referred to Brazil Business Unit.
Changes in the rights of use of third party assets during 2019 are shown below.

(millions of euros)	31/12/2018	Adjustment for accounting principles	Capital Expenditures	Increase in financial leasing contracts	Depreciation and amortization	Disposals	Exchange differences	Other changes	31/12/2019
Property	-	432	-	116	-63	-	-9	-30	**446**
Plant and equipment	-	1.004	-	298	-170	-	-23	9	**1.118**
Other	-	8	-	1	-3	-	-	-	**6**
Total	**-**	**1.444**	**-**	**415**	**- 236**	**-**	**- 32**	**- 21**	**1.570**

The "Adjustment for accounting principles" column includes reclassification of values as of January 01, 2019 for:

- Indefeasible Rights of Use - IRU (32 million euros) relating to the Brazil Business Unit previously registered in intangible assets;
- other rights of use infrastructure in Brazil – "LT Amazonas" (33 million euros) previously recognized as intangible assets;
- assets held under finance leases (195 million euros), previously recognized as tangible assets.

"Increases in finance lease contracts" include the higher value of user rights entered following new lease contracts payables, increase of lease payments and renegotiations of existing contracts. In this regard, it should be noted that the adoption of the new IFRS16 (Leases) on January 1, 2019 lease agreements are represented in accounting by recognizing a financial liability in the statements of financial position, represented by the current value of future rent charges, against recognition under assets of the right of use of the leased asset.

The item **Property** (civil and industrial) includes buildings under financial leases and related building adaptations essentially.

The item **Plant and equipment** mainly includes the rights of use on the infrastructures for telecommunications services (1.118 million euros). This includes, among others, the recognition of the value of the telecommunications towers sold by the Tim Brasil group to American Tower do Brasil and subsequently repurchased in the form of finance lease.

The item **Other** mainly comprises the finance leases on autovehicles.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2019 can be summarized as follows:

	31/12/2019			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Property	508	-	-62	446
Plant and equipment leased	1.345	-	-227	1.118
Other	12	-	-6	6
Total	**1.865**	**-**	**-295**	**1.570**

Note 8 - Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method include TI Audit Compliance Latam S.A. and Movenda S.p.A. that are associates to the Group, but their contributions in the Consolidated Financial Statements is considered to be non-material individually and in an aggregate form.

INVESTMENTS IN STRUCTURED ENTITIES

The Group does not hold investments in structured entities.

OTHER INVESTMENTS

(million euros)	31/12/2019	31/12/2018
TIM S.p.A.	70	61
Total	**70**	**61**

As permitted by IFRS 9, the Group measures all Other Investments at fair value through other comprehensive income (FVTOCI).

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Note 9 - Financial assets (non-current and current)

Financial assets (non-current and current) were broken down as follows:

(millions of euros)	31/12/2019	31/12/2018
Non-current financial assets	**1.927**	**2.329**
Financial receivables for lease contracts	34	37
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1	1
Non-hedging derivatives	635	584
Loans and other financial receivables	1.257	1.707
Current financial assets	**4.077**	**3.797**
Securities other than investments	**877**	**863**
Fair value through other comprehensive income (FVTOCI)	728	683
Fair value through profit or loss (FVTPL)	149	180
Financial receivables and other current financial assets	**542**	**1.538**
Financial receivables for lease contracts	1	-
Non-hedging derivatives	24	30
Loans and other financial receivables	517	1.508
Cash and cash equivalents	**2.658**	**1.396**
Total non-current and current financial assets	**6.004**	**6.126**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Financial receivables for lease contracts refers to finance leases on rights of use (Brazil Business Unit).

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature refers mainly to the mark-to-market component of the hedging derivatives.

Non-hedging derivatives relating to items classified as current and non-current financial assets totaled 659 million euros (614 million euros at December 31, 2018). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note "Derivatives").

Loans and receivables both in current and non-current financial assets amounts to 1.774 million euros (3.215 million euros at December 31, 2018) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. Regarding the loans granted to the ultimate Parent company, the credit risk is considered low based on the financial capability of TIM S.p.A. Other loans are considered fully recoverable by the management.

Securities other than investments included in current assets relates to:

- listed securities, classified as FVTOCI - *Fair value through other comprehensive income*, due beyond three months. They consist of 333 million euros of treasury bonds and 395 million euros of bonds purchased by the Parent with different maturities, all with an active market and consequently readily convertible into cash. The above government bonds represent investments in "Sovereign debt securities".
- securities, classified as FVTPL - *Fair value through profit or loss*, due beyond three months. They are related to the investment made by the Brazil Business Unit for an equivalent value of 149 million euros in monetary funds.

On November 27, 2019, in accordance with two securities lending agreements signed with TIM S.p.A., Telecom Italia Finance S.A. lent until April 30, 2020 (renewable term), 100 million euros (nominal) of BTP 01/03/2023 and 150 million euros of BTP 15/04/2021. As per IFRS9, the assets have not been derecognized.

Cash and cash equivalents:

(millions of euros)	31/12/2019	31/12/2018
Liquid assets with banks, financial institutions and post offices	2.176	1.175
Securities other than investments (due within 3 months)	482	221
Total	**2.658**	**1.396**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

(millions of euros)	31/12/2019	31/12/2018
Liquid assets with banks, financial institutions and post offices	2.176	1.175
Securities other than investments (due within 3 months)	482	221
	2.658	**1.396**
Financial payables (due within 3 months)	-9	-37
Total	**2.649**	**1.359**

The different technical forms of investing available cash at December 31, 2018 had the following characteristics:

- maturities: all deposits have a maximum maturity date of three months;
- counterparty risk: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB according to Standard & Poor's with regard to Europe, and with leading local counterparts with regard to investments in South America;
- country risk: deposits have been made mainly by the Parent company in major European financial markets.

Securities other than investments (due within 3 months) included 482 million euros (221 million euros at December 31, 2018) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

Note 10 - Miscellaneous receivables and other non-current assets

(million euros)	31/12/2019	Of which Financial Instruments	31/12/2018	Of which Financial Instruments
Miscellaneous receivables	**945**	**238**	**647**	**315**
Other non-current assets	15	-	17	-
Prepaid expenses from customer contracts (contract assets)	5	-	6	-
Other prepaid expenses	10	-	11	-
Total	**960**	**238**	**664**	**315**

As at December 31, 2019 **Miscellaneous receivables** mainly relate to the Brazil Business Unit for an amount of 944 million euros (646 million euros at December 31, 2018). They include receivables for court deposits of 225 million euros (307 million euros at December 31, 2018) and income tax receivables of 46 million euros (46 million euros at December 31, 2018). Furthermore, they included the posting of higher tax credits following the favourable result of the tax disputes concerning the inclusion of the ICMS indirect tax in the basis of calculation of the taxes on PIS and COFINS revenues.
Please refer to the "Disputes and pending legal actions, other information, commitments and guarantees" note for further details.

Other non-current assets include prepaid expenses related to the Brazil BU for 15 million euros (17 million euros at December 31, 2018) and is mainly represented by prepaid expenses related to rental and insurance and incremental costs related to sales commissions paid to sales agents in order to obtain customer contracts arising from the adoption of IFRS 15, which are deferred to income according to the term and/or economic benefit of the contract, which is usually two years.

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Note 11 - Income taxes (current and deferred)

INCOME TAX RECEIVABLES

Non-current and current income tax receivables at December 31, 2019 amounted to 117 million euros (124 million euros at December 31, 2018) and related to the Brazil Business Unit.
Specifically, they consisted of:

- non-current receivables of 45 million euros (46 million at December 31, 2018);
- current income tax receivables of 72 million euros (78 million euros at December 31, 2018).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of -11 million euros at December 31, 2018 (177 million euros at December 31, 2018) was broken down as follows:

(million euros)	31/12/2019	31/12/2018
Deferred tax assets	-	177
Deferred tax liabilities	-11	-
Total	**-11**	**177**

Deferred taxes are all attributable to Brazil BU.

Since the presentation of deferred tax assets and liabilities in the financial statements takes into account the offsets by legal entity when applicable, the composition of the gross amounts before offsets is presented below:

(million euros)	31/12/2019	31/12/2018
Deferred tax assets	372	352
Deferred tax liabilities	-383	-175
Total	**-11**	**177**

The temporary differences that made up this line item at December 31, 2019 and 2018, as well as the movements during 2019 were as follows:

(million euros)	31/12/2018	Recognized in profit or loss	Recognized in equity	Other changes	31/12/2019
Deferred tax assets	**352**	**14**	**-**	**6**	**372**
Tax loss carryforwards	202	-22	-	-4	176
Provision for bad debts	54	14	-	-1	67
Provisions	86	-1	-	-2	83
Other deferred tax assets	10	23	-	13	46
Deferred tax liabilities	**-175**	**-198**	**-**	**-10**	**-383**
Brazil BU - exclusion of ICMS from the PIS and Cofins calculation basis	-	-226	-	-	-226
Derivatives	-5	2	-	-	-3
Business combinations - for step-up of net assets in excess of tax basis	-102	3	-	1	-98
Other deferred tax liabilities	-68	23	-	-11	-56
Total Net deferred tax assets (liabilities)	**177**	**-184**	**-**	**-4**	**-11**

At December 31, 2018, the Group had unused tax loss carryforwards of 1.736 million euros with the following expiration dates:

Year of expiration	(million euros)
2020	-
2021	-
2022	-
2023	-
2024	
Expiration after 2024	28
Without expiration	1.629
Total unused tax loss carryforwards	**1.657**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 522 million euros at December 31, 2019 (596 million euros at December 31, 2018) and referred to the Brazil Business Unit. Deferred tax assets are recognized when it is considered probable that taxable income will be available in the future against which the tax losses can be utilized. On the other hand, deferred tax assets of 247 million euros (259 million euros at December 31, 2018) have not been recognized on 1.020 million euros (1.023 million euros at December 31, 2018) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2019, deferred tax liabilities have not been recognized on approximately 0,5 billion euros (0,5 billion euros at December 31, 2018) of tax-suspended reserves and undistributed earnings of subsidiaries, because the Group is in a position to control the timing of the distribution of those reserves and it is probable that those accumulated earnings will not be distributed in the foreseeable future. The contingent liabilities relating to taxes that should be recognized, if these reserves are distributed, are in any case not significant.

INCOME TAX PAYABLES

Income tax payables amounted to 77 million euros (84 million euros at December 31, 2018) and are mainly related to Brazil Business Unit. They were broken down as follows:

(million euros)	31/12/2019	31/12/2018
Non-current	42	42
Current	35	42
Total	**77**	**84**

INCOME TAX INCOME (EXPENSE)

Details are as follows:

(million euros)	Year 2019	Year 2018
Current taxes for the year	35	65
Reimbursement of prior years taxes	-16	-
Total current taxes	**19**	**65**
Deferred taxes	189	-198
Total income tax for the year	**208**	**- 133**

The “Reimbursement of prior years taxes” refers to tax recovery linked to the sale of the participation in the Argentinian company Sofora. The tax has been effectively paid to the Argentinian administration in 2019 following official clarifications of the fiscal law applicable and, consequently, the counterparty cashed back the difference of 18 million dollars (16 million euros) to the Parent.
Deferred taxes are mainly connected higher deferred tax liabilities recognized by the Brazil Business Unit against nonrecurring income relating to tax credits following the favorable outcome of the disputes relating to the inclusion of the ICMS tax in the basis for calculating the PIS/COFINS contribution.

The reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2019 and 2018 is the following:

(million euros)	Year 2019	Year 2018
Profit (loss) before tax	**999**	**418**
Theoretical income tax	**249**	**109**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	1	8
Tax losses from prior years not recoverable (recoverable) in future years	-1	-226
Different rate compared to theoretical rate in force in Luxembourg and other changes	3	10
Brazil: incentive on investments in the north-east of the country	-44	-34
Total effective income tax recognized in income statement	**208**	**-133**

The tax rate in force in Luxembourg as at December 31, 2019 is 24,94% (26,01% as at December 31, 2018).

Note 12 - Inventories

(million euros)	31/12/2019	31/12/2018
Finished goods	44	41
Total	**44**	**41**

The inventories mainly consist of mobile handsets and tablets, accessories and prepaid cards and are referred to Brazil Business Unit.

Note 13 - Trade and miscellaneous receivables and other current assets

(million euros)	31/12/2019	Of which Financial Instruments	31/12/2018	Of which Financial Instruments
Trade receivables	**723**	**723**	**670**	**670**
Receivables from customers	665	665	602	602
Receivables from other telecommunications operators	58	58	68	68
Miscellaneous receivables	**359**	**2**	**101**	**2**
Other current assets	**40**	-	**62**	-
Prepaid expenses from customer contracts (contract assets)	31	-	33	-
Other prepaid expenses	9	-	29	-
Total	**1.122**	**725**	**833**	**672**

As at December 31, 2019 **Trade receivables** related to the Brazil Business Unit amounted to 723 million euros (670 million euros at December 31, 2018) and are stated net of the provision for expected credit losses of 171 million euros (155 million euros at December 31, 2018).

Other current assets include the current portion of prepaid expenses related to the Brazil BU for and is mainly represented by prepaid expenses related to rental and insurance and incremental costs related to sales commissions paid to sales agents in order to obtain customer contracts arising from the adoption of IFRS 15, which are deferred to income according to the term and/or economic benefit of the contract, which is usually two years.

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

The aging of financial instruments included in "Trade and miscellaneous receivables and other current assets" at December 31, 2019 and 2018 was as follows:

				overdue:			
(million euros)	**31/12/2019**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	725	553	172	109	36	27	-

				overdue:			
(million euros)	**31/12/2018**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	672	536	136	102	19	15	-

The increase in the current portion (17 million euros) includes a negative exchange adjustment of around 11 million euros.

Overdue receivables rise of 36 million of euros compared to December 31, 2018, including a negative exchange difference of around 3 million euros.

As at December 31, 2019 **Trade receivables** related to the Brazil Business Unit amount to 723 million euros (670 million euros at December 31, 2018).

Movements and ageing in the provision for expected credit losses were as follows:

(million euros)	2019	2018
At January 01	**155**	**117**
Impact from adoption of IFRS 9	-	32
Provision charges to the income statement	170	127
Utilization and decreases	-150	-105
Exchange differences and other changes	-4	-16
At December 31	**171**	**155**

				overdue:			
(million euros)	**31/12/2019**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Expected Credit Losses	171	19	152	28	40	84	-

As at December 31, 2019 **Miscellaneous receivables** amounted to 359 million euros (101 million euros at December 31, 2018) and did not include provisions for bad debts (same as at December 31, 2018).
Details are as follows:

(million euros)	31/12/2019	31/12/2018
Advances to suppliers	8	10
Receivables from employees	2	1
Tax receivables	333	70
Sundry receivables	16	20
Total	**359**	**101**

As at December 31, 2019 **Tax receivables** included 333 million euros (70 million euros at December 31, 2018) relating to the Brazil Business Unit, largely with reference to local indirect taxes; specifically, they include the recognition of current tax receivables resulting from the favourable outcome of tax disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating of the PIS/COFINS contribution, the use of which began as early as the end of 2019.

Other current assets include prepaid expenses of the Brazil BU for 40 million euros (62 million euros at December 31, 2018).

Note 14 - Equity

As at December 31, 2019 the authorized, issued and fully paid capital of 1.818.691.978,50 euros (1.818.691.978,50 euros at December 31, 2018) is represented by 185.960.325 ordinary shares (185.960.325 at December 31, 2018) with a nominal value of EUR 9,78 per share.
As at December 31, 2019 and 2018 the Parent is 100% held by TIM S.p.A.
There has not been any movement in Share Capital in 2019.

Note 15 - Financial liabilities (non-current and current)

Non-current and current financial liabilities (gross financial debt) were broken down as follows:

(million euros)	31/12/2019	31/12/2018
Non-current financial liabilities	**3.416**	**2.205**
Financial payables (medium/long-term):	**1.318**	**1.388**
Bonds	1.012	1.012
Amounts due to banks	142	217
Other financial payables	164	159
Finance lease liabilities (medium/long-term)	**1.526**	**290**
Other financial liabilities (medium/long-term):	**572**	**527**
Non-hedging derivatives	572	527
Current financial liabilities	**896**	**1.050**
Financial payables (short-term):	**686**	**991**
Bonds	300	74
Amounts due to banks	359	870
Other financial payables	27	47
Finance lease liabilities (short-term)	**193**	**42**
Other financial liabilities (short-term):	**17**	**17**
Non-hedging derivatives	17	17
Total financial liabilities (gross financial debt)	**4.312**	**3.255**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

The breakdown of gross financial debt by effective interest rate bracket, excluding the effect of any hedging instruments, is provided below:

(million euros)	31/12/2019	31/12/2018
Up to 2,5%	25	616
From 2,5% to 5%	336	277
From 5% to 7,5%	416	162
From 7,5% to 10%	1.144	1.194
Over 10%	1.717	385
Accruals/deferrals, MTM and derivatives	674	621
Total	**4.312**	**3.255**

Following the use of derivative hedging instruments, on the other hand, the gross financial debt by nominal interest rate bracket is:

(million euros)	31/12/2019	31/12/2018
Up to 2,5%	189	748
From 2,5% to 5%	584	182
From 5% to 7,5%	86	125
From 7,5% to 10%	1.062	1.194
Over 10%	1.717	385
Accruals/deferrals, MTM and derivatives	674	621
Total	**4.312**	**3.255**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 2019:

	maturing by 31/12 of the year						
(millions of euros)	2020	2021	2022	2023	2024	After 2024	Total
Bonds	221	-	-	-	-	1.015	1.236
Loans and other financial liabilities	9	4	135	-	46	191	385
Finance lease liabilities	1	-	1	-	176	1.539	1.717
Total	**231**	**4**	**136**	**0**	**222**	**2.745**	**3.338**
Current financial liabilities	304	-	-	-	-	-	304
Total	**535**	**4**	**136**	**0**	**222**	**2.745**	**3.642**

The following tables list the bonds issued by the Group, expressed at the nominal repayment amount, net of bond repurchases, and also at market value as at December 31, 2019:

Currency	Amount (millions)	Nominal repayment amount at 31/12/19 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/19 (%)	Market value at 31/12/19 (millions of euros)
Bonds issued by Telecom Italia Finance and guaranteed by TIM S.p.A.								
Euro	1.015	1.015	7,750%	24/01/2003	24/01/2033	109,646[*]	150,613	1.529
Bonds issued by TIM S.A. and guaranteed by TIM Participaçoes S.A.								
BRL	1.000	220,8	104,1%CDI	25/01/2019	15/07/2020	100	100	221
Total								**1.750**

[*]Weighted average issue price for bonds issued with more than one tranche.

The following table lists the changes in bonds during 2019:

New issue

(millions of original currency)	Currency	Amount	Issue date
TIM S.A. 1.000 million reais 104,10% CDI maturing 15/07/2020	BRL	1.000	25/01/2019

Amounts due to banks (medium/long term) of 142 million euros (217 million euros at December 31, 2018) decreased by 75 million euros, mainly for the transfer to the current portion.

As at December 31, 2019 **Other financial payables (medium/long-term)** amounted to 164 million euros (159 million euros at December 31, 2018) corresponding to Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totalled 1.526 million euros at December 31, 2019 (290 million euros at December 31, 2018). Starting from January 1, 2019, the new accounting standard IFRS 16 was introduced (for more details, see the Note "Accounting policies"), whose application led to the recognition of a higher debt for financial leases of 1.369 millions of euros at December 31, 2019 out of a total of 1.719 million euros. The difference (361 million euros) essentially refers to property leases accounted for according to the financial method established by IAS 17.
With reference to the financial lease liabilities recognized following the adoption of IFRS 16, in 2019 the following is noted:

(million euros)	31/12/2019
Principal reimbursements	168
Cash out interest portion	143
Total	**311**

Non-hedging derivatives relating to items classified as current and non-current financial liabilities totaled 589 million euros (544 million euros at December 31, 2018). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

Short-term amounts due to banks totalled 359 million euros (870 million euros at December 31, 2018) and included 83 million euros of the current portion of medium/long-term amounts due to banks.

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Note 16 - Net financial debt

The following table shows the net financial debt at December 31, 2019 and 2018, calculated in accordance with the criteria indicated in the "Recommendations for the Consistent Implementation of the European Commission Regulation on Prospectuses", issued on February 10, 2005 by the European Securities & Markets Authority (ESMA).

(million euros)	31/12/2019	31/12/2018
Non-current financial liabilities	**3.416**	**2.205**
Current financial liabilities	**896**	**1.050**
Total gross financial debt	**4.312**	**3.255**
Non-current financial assets	**-35**	**-38**
Non-current financial receivables for lease contract	-34	-37
Non-current hedging derivatives	-1	-1
Current financial assets	**-4.077**	**-3.797**
Securities other than investments	-877	-863
Financial receivables and other current financial assets	-542	-1.538
Cash and cash equivalents	-2.658	-1.396
Net financial debt as per ESMA	**200**	**-580**
Non-current financial assets	**-1.892**	**-2.292**
Other financial receivables and other non-current financial assets	-1.892	-2.292
Net financial debt [*]	**-1.692**	**-2.872**

[*] For details of the effects of related party transactions on net financial debt, see the specific table in the Note "Related party transactions".

The following additional disclosures are provided in accordance with IAS 7.

(million euros)		Cash movements		Non-cash movements			
	31/12/2018	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	31/12/2019
Financial payables (medium/long-term):	**1.621**	**227**	**- 164**	**4**	**-**	**12**	**1.700**
Bonds	1.085	227	-				1.312
Amounts due to banks	375		-164	4	-	7	222
Other financial payables	161	-	-	-	-	5	166
of which short-term portion	*233*	*83*	*63*	*1*	-	*2*	*382*
Finance lease liabilities (medium/long-term):	**333**	**380**	**-168**	**-43**	**-**	**1.217**	**1.719**
of which short-term portion	*41*	*2*	-	*-5*	-	*155*	*193*
Other financial liabilities (medium/long-term):	**545**	**-**	**-**	**8**	**37**	**-**	**590**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	-	-	-	-	-	-	-
Non-hedging derivatives	545	-	-	8	37	-	590
of which short-term portion	*17*	-	-	-	-	-	17
Financial payables (short-term):	**756**	**119**	**-572**	**-**	**-**	**-**	**303**
Amounts due to banks	711	112	-544	-	-	-	279
Other financial payables	45	7	-28	-	-	-	24
Total financial liabilities (gross financial debt)	**3.255**	**726**	**- 904**	**- 31**	**37**	**1.229**	**4.312**
Positive hedging derivatives (current and non-current)	1	-	-	-	-	-	1
Positive non-hedging derivatives (current and non-current)	614	-	-	10	41	-7	658
Total	**3.870**	**726**	**-904**	**-21**	**78**	**1.222**	**4.971**

For Finance lease liabilities other changes include the adoption of IFRS 16.

Note 17 - Financial risk management

Financial risk management objectives and policies of the Group

The Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of non-fulfilment of obligations undertaken by the counterparty with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the establishment, at TIM Group level, of guidelines for directing operations;
- the work of a TIM Group committee that monitors the level of exposure to market risks in accordance with pre-established general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach pre-established objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Group are described below.

Identification of risks and analysis

The Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates, or has bond issues, principally Europe and Latin America.
The financial risk management policies of the Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.
At TIM Group level is set an optimum composition for the fixed-rate and variable-rate debt structure and it has been decided the use of derivative financial instruments to achieve that set composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been set, on the basis of the nominal amount, in the range 65%-75% for the fixed-rate component and 25%-35% for the variable-rate component.
In managing market risk, the Group mainly uses the following financial derivatives:

- Interest Rate Swaps (IRS), to modify the profile of the original exposure to interest rate risks on loans and bonds, both fixed and variable;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards, to convert loans and bonds issued in currencies other than euro to the functional currencies of the operating companies.

Derivative financial instruments may be designated as fair value hedges for managing exchange rate and interest rate risk on instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-set the exchange rate of future transactions and the interest rate.
All derivative financial instruments are entered into with banking and financial counterparties with at least a "BBB-" rating from Standard & Poor's or an equivalent rating, and an outlook that is not negative. The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- sensitivity analyses were performed by applying reasonably likely changes in the relevant risk variables to the amounts in the Consolidated Financial Statements at December 31, 2019;
- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39 and IFRS 9, they are accounted for at their fair value through profit and loss. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk. The Group has not applied fair value hedge accounting for the year ended 31 December 2019;

- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly, they are included in this analysis;
- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly, they are included in this analysis.

<u>Exchange rate risk – Sensitivity analysis</u>
At December 31, 2019 (and also at December 31, 2018), the exchange rate risk of the Group's loans denominated in currencies other than the functional currency of the Consolidated Financial Statements was hedged in full. Accordingly, a sensitivity analysis was not performed on exchange risk.

<u>Interest rate risk – Sensitivity analysis</u>
The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in line with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2019 the interest rates in the various markets in which the Group operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the income tax effect, would have been recognized in the income statement of 5 million euros (17 million euros at December 31, 2018).

<u>Credit risk</u>
Exposure to credit risk for the Group consists of possible losses that could arise from the failure of either commercial or financial counterparties to fulfill their assumed obligations. To measure this risk over time for impairment of financial assets (trade receivables due from customers included), the introduction of IFRS 9 required switching from the incurred loss model pursuant to IAS 39 to the expected credit loss model. Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors. The Group's maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.
Risk related to trade receivables is managed using customer scoring and analysis systems. Provision charges for bad debts are recorded for specific credit positions that have an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note "Trade and miscellaneous receivables and other current assets".
Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk. The expected credit loss is calculated based on the default probability and the percentage of credit that cannot be recovered in the event of a default (the loss given default). The model adopted to calculate the expected credit loss is based on the Bloomberg Credit Risk Model, a model developed by Bloomberg which, starting from Merton’s distance-to-default (“DD”) concept, estimates the probability of default together with the recovery rate. At the same time, the loss given default is defined as the non-recoverable component of post-default financial assets. In particular, the DD - based on balance sheet data - is enriched with a series of additional information by country (macroeconomic, risk), business sector and individual company, as well as accounting adjustments aimed at ensuring uniformity of the model's outputs; finally, through a non-linear function of the DD, you get the default probability.
Moreover, as regards credit risk relating to the asset components which contribute to the determination of "Net financial debt", it should be noted that the management of the Group's liquidity is guided by conservative criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources;
- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of medium term liquidity, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfilment of the obligations undertaken by the counterparty, deposits of the European companies are made with leading banking and financial institutions rated no lower than "investment grade". Investments by the companies in South America are made with leading local counterparties. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there is a bond portfolio in which the investments have a low level of risk. All investments have been carried out in compliance with the Guidelines on "Management and control of financial risk" established by the ultimate Parent entity TIM S.p.A.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different banking counterparties. Consequently, there are no significant positions with any one single counterparty.

Liquidity risk

The Group pursues the objective of achieving an "adequate level of financial flexibility" which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.
Current financial assets at December 31, 2019, together with unused committed bank lines, are sufficient to fully cover the Group's financial liabilities due at least for the next 24 months.
The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2019. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements as at December 31, 2019:

	maturing by 31/12 of the year:						
(million euros)	2020	2021	2022	2023	2024	After 2024	Total
Bonds							
Principal	221	-	-	-	-	1.015	1.236
Interest Portion	84	79	79	79	79	708	1.108
Loans and other financial liabilities							
Principal	79	67	46	7	17	169	385
Interest Portion	13	11	7	5	4	21	61
Finance lease liabilities							
Principal	192	171	172	171	139	874	1.719
Interest Portion	150	134	118	103	90	354	949
Non-current financial liabilities							
Principal	**492**	**238**	**218**	**178**	**156**	**2.058**	**3.340**
Interest Portion	**247**	**224**	**204**	**187**	**173**	**1.083**	**2.118**
Current financial liabilities							
Principal	**302**	**-**	**-**	**-**	**-**	**-**	**302**
Interest Portion	**4**	**-**	**-**	**-**	**-**	**-**	**4**
Total Financial liabilities							
Principal	**794**	**238**	**218**	**178**	**156**	**2.058**	**3.642**
Interest Portion	**251**	**224**	**204**	**187**	**173**	**1.083**	**2.122**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2019:

	maturing by 31/12 of the year:						
(million euros)	2020	2021	2022	2023	2024	After 2024	Total
Disbursements	1	1	1	1	1	5	10
Receipts	-1	-1	-1	-1	-1	-6	- 11
Hedging derivatives – net (receipts) disbursements	**0**	**-**	**-**	**-**	**-**	**-1**	**-1**
Disbursements	146	137	136	127	124	973	1.643
Receipts	-154	-143	-143	-134	-132	-1.004	-1.710
Non-Hedging derivatives – net (receipts) disbursements	**-8**	**-6**	**-7**	**-7**	**-8**	**-31**	**-67**
Total net receipts (disbursements)	**-8**	**-6**	**-7**	**-7**	**-8**	**-32**	**-68**

Market value of derivatives
In order to determine the fair value of derivatives, the Group uses various valuation models.
The mark-to-market calculation is determined by the present value discounting of the interest and notional future contractual flows using market interest rates and exchange rates.
The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the difference between the interest rates paid/received.
The market value of CCIRSs, on the other hand, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs involve the exchange of the reference interest and principal, in the respective currencies of denomination.
The options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: time horizon of the life of the option, risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and exercise price.

Note 18 - Derivatives

The hedge accounting rules provided by IAS 39 continued to be applied for derivatives.

Derivative financial instruments are used by the Group to hedge its exposure to foreign exchange rate risk, to manage interest rate risk and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.
Derivative financial instruments in place at December 31, 2019 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), currency forwards and foreign exchange options to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

In carrying out its role of providing financial assistance to TIM Group companies, Telecom Italia Finance aggregates all the exposure with some banking counterparties in just one entity. As a consequence, the Group has derivative contracts signed with banks and analogous intercompany derivative contracts with other TIM Group companies for a notional amount of 3.030 million euros (3.014 at December 31, 2018).
The balance of asset and liability measurements of these contracts is equal to zero.

The following tables show the derivative financial instruments of the Group at December 31, 2019 and 2018, by type:

Type (million euros)	Hedged risk	Notional amount at 31/12/2019	Notional amount at 31/12/2018	Spot Mark-to-Market (Clean Price) at 31/12/2019	Spot Mark-to-Market (Clean Price) at 31/12/2018
Cross Currency and Interest Rate Swap [*]	Interest rate risk and currency exchange rate risk	139	139	1	1
Total Cash Flow Hedge Derivative [**]		**139**	**139**	**1**	**1**
Total Non-Hedge Accounting Derivatives [***]		**3.346**	**3.397**	**65**	**68**
Total Telecom Italia Finance Group Derivatives		**3.485**	**3.536**	**66**	**69**

[*] For this instrument contracts no exchange of notional amounts has been agreed with the counterparties.
[**] On the liability expiring on 2029, derivatives are both accounted in CFH and non-hedge; accordingly, although it is a single issue, the notional amount of derivatives is included in both the CFH and non-hedging groupings.
[***] Telecom Italia Finance Group entered into some derivatives on other TIM Group companies request. Since TIF Group has a contract with an external counterparty and the opposite contract with an intercompany, the MTM exposure on these positions is neutral and there is no risk connected. The notional amounts are exposed for all these positions.

The hedging of cash flows by cash flow hedges was considered highly effective and at December 31, 2019 led to recognition in equity of unrealized gains of 1,5 million euros (1 million euros as at December 31, 2018).

The transactions hedged by cash flow hedges will generate cash flows and produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (million)	Start of period	End of period	Rate applied	Interest period
USD	186	Jan-20	Oct-29	0,75%	Semiannually

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In essence, the portfolio risk must be significantly less than the risk of the hedged item.
No material ineffective portion has been recognized in the income statement from designated cash flow hedge derivatives during 2019.

Note 19 - Supplementary disclosures on financial instruments

Measurement at fair value

For the purposes of the comparative information between the carrying amounts and the fair value of financial instruments, required by IFRS 7, for the Parent's bond included in non-current financial liabilities, the fair value is directly observable in the financial markets, as it is a financial instrument that, due to its size and diffusion among investors, is commonly traded on the relevant markets (see the Note "Financial Liabilities (non-current and current)"). For other types of financing, the fair value has been assumed to be equal to nominal repayment amount. For the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash or loans towards Ultimate Parent Company and other TIM Group companies.

The fair value measurement of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. In particular, the fair value hierarchy introduces three levels of input:

- Level 1: quoted prices in active market;
- Level 2: prices calculated using observable market inputs;
- Level 3: prices calculated using inputs that are not based on observable market data.

The tables below provide additional information on the financial instruments, including the hierarchy level for each class of financial asset/liability measured at fair value at December 31, 2019.
The assets and liabilities at December 31, 2019 are presented based on the categories established by IFRS 9.

Key for IFRS 9 categories

	Acronym
Financial assets measured at:	
Amortized Cost	AC
Fair Value Through Other Comprehensive Income	FVTOCI
Fair Value Through Profit or Loss	FVTPL
Financial liabilities measured at:	
Amortized Cost	AC
Fair Value Through Profit or Loss	FVTPL
Hedge Derivatives	HD
Not applicable	n/a

Classification and fair value hierarchy of financial instruments measured at fair value as at December 31, 2019:

				Levels of hierarchy	
(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2019	Level1	Level2
ASSETS					
Non-current assets					
Other investments	FVTOCI	[8]	70	70	-
Securities, financial receivables and other non-current financial assets:					
Hedging derivatives	HD[*]	[9]	1	-	1
Non-hedging derivatives	FVTPL	[9]	635	-	635
(a)			**706**	**70**	**636**
Current assets					
Securities other than investments, measured at:					
Fair value through other comprehensive income	FVTOCI	[9]	728	728	-
Fair value through profit or loss	FVTPL	[9]	149	149	-
Financial receivables and other current financial assets:					
Non-hedging derivatives	FVTPL	[9]	24	-	24
(b)			**901**	**877**	**24**
Total (a+b)			**1.607**	**947**	**660**
LIABILITIES					
Non-current liabilities					
Non-hedging derivatives	FVTPL	[15]	572	-	572
(c)			**572**	**-**	**572**
Current liabilities					
Non-hedging derivatives	FVTPL	[15]	17	-	17
(d)			**17**	**-**	**17**
Total (c+d)			**589**	**-**	**589**

[*] Derivative measured at fair value through other comprehensive income.

Classification and fair value hierarchy of financial instruments measured at fair value as at December 31, 2018:

(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2018	Levels of hierarchy Level1	Level2
ASSETS					
Non-current assets					
Other investments	FVTOCI	[8]	61	61	-
Securities, financial receivables and other non-current financial assets:					
Hedging derivatives	HD[*]	[9]	1	-	1
Non-hedging derivatives	FVTPL	[9]	584	-	584
(a)			**646**	**61**	**585**
Current assets					
Securities other than investments, measured at:					
Fair value through other comprehensive income	FVTOCI	[9]	683	683	-
Fair value through profit or loss	FVTPL	[9]	180	180	-
Financial receivables and other current financial assets:					
Non-hedging derivatives	FVTPL	[9]	30	-	30
(b)			**893**	**863**	**30**
Total (a+b)			**1.539**	**924**	**615**
LIABILITIES					
Non-current liabilities					
Non-hedging derivatives	FVTPL	[15]	527	-	527
(c)			**527**	**-**	**527**
Current liabilities					
Non-hedging derivatives	FVTPL	[15]	17	-	17
(d)			**17**	**-**	**17**
Total (c+d)			**544**	**-**	**544**

[*] Derivative measured at fair value through other comprehensive income.

For financial assets measured at FVTOCI, the profit/(loss) recognized in Other components of the Consolidated Statements of Comprehensive Income were recognized within the scope of the Reserve for financial assets measured at fair value through other comprehensive income.

Carrying amount and fair value of financial instruments not measured at fair value as at December 31, 2019:

					Levels of hierarchy		
(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2019	Fair Value at 31/12/2019	Level1	Level3	Amounts recognized in the financial statements pursuant to IFRS 16
ASSETS							
Non-current assets							
Other financial receivables	AC	[9]	1.257	1.257	-	1.257	-
Miscellaneous receivables	AC	[10]	238	238	-	238	-
Financial receivables for lease contracts	n/a	[9]	34	34	-	-	34
(a)			**1.529**	**1.529**	**-**	**1.495**	**34**
Current assets							
Other short-term financial receivables	AC	[9]	517	517	-	517	-
Cash and cash equivalents	AC	[9]	2.658	2.658	-	2.658	-
Trade and miscellaneous receivables	AC	[13]	725	725	-	725	-
Financial receivables for lease contracts	*n/a*	[9]	1	1	-	-	1
(b)			**3.901**	**3.901**	**-**	**3.900**	**1**
Total (a+b)			**5.430**	**5.430**	**-**	**5.395**	**35**
LIABILITIES							
Non-current liabilities							
Financial payables	AC	[15]	1.318	1.835	1.529	306	-
Finance lease liabilities	n/a	[15]	1.526	1.526	-	-	1.526
(c)			**2.844**	**3.361**	**1.529**	**306**	**1.526**
Current liabilities							
Financial payables	AC	[15]	686	686	-	686	-
Trade and miscellaneous payables and other current liabilities	AC	[22]	1.132	1.132	-	1.132	-
Finance lease liabilities	n/a	[15]	193	193	-	-	193
(d)			**2.011**	**2.011**	**-**	**1.818**	**193**
Total (c+d)			**4.855**	**5.372**	**1.529**	**2.124**	**1.719**

Carrying amount and fair value of financial instruments not measured at fair value as at December 31, 2018:

					Levels of hierarchy		
(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2018	Fair Value at 31/12/2018	Level1	Level3	Amounts recognized in financial statements according to IAS 17
ASSETS							
Non-current assets							
Other financial receivables	AC	[9]	1.707	1.707	-	1.707	-
Miscellaneous receivables	AC	[10]	314	314	-	314	-
Financial receivables for lease contracts	n/a	[9]	36	36	-	-	36
(a)			**2.057**	**2.057**	**-**	**2.021**	**36**
Current assets							
Other short-term financial receivables	AC	[9]	1.508	1.508	-	1.508	-
Cash and cash equivalents	AC	[9]	1.396	1.396	-	1.396	-
Trade and miscellaneous receivables	AC	[13]	671	671	-	671	-
(b)			**3.575**	**3.575**	**-**	**3.575**	**-**
Total (a+b)			**5.632**	**5.632**	**-**	**5.632**	**36**
LIABILITIES							
Non-current liabilities							
Financial payables	AC	[15]	1.388	1.649	1.273	376	-
Finance lease liabilities	n/a	[15]	290	290	-	-	290
(c)			**1.678**	**1.939**	**1.273**	**666**	**290**
Current liabilities							
Financial payables	AC	[15]	991	991	-	991	-
Trade and miscellaneous payables and other current liabilities	AC	[22]	1.250	1.250	-	1.250	-
Finance lease liabilities	n/a	[15]	42	42	-	-	42
(d)			**2.283**	**2.283**	**-**	**2.283**	**42**
Total (c+d)			**3.961**	**4.222**	**1.273**	**2.949**	**332**

Gains and losses by IFRS 9 category - Year 2019

(million euros)	IFRS 9 Categories	Net gains/(losses) 31/12/2019	of which interest
Amortized Cost	AC	-201	-14
Fair Value Through Profit or Loss	FVTPL	5	-
Fair Value Through Other Comprehensive Income	FVTOCI	8	-
Total		**- 188**	**- 14**

Gains and losses by IFRS 9 category - Year 2018

(million euros)	IFRS 9 Categories	Net gains/(losses) 31/12/2018	of which interest
Amortized Cost	AC	100	-18
Fair Value Through Profit or Loss	FVTPL	4	-
Fair Value Through Other Comprehensive Income	FVTOCI	16	-
Total		**120**	**- 18**

Note 20 - Provisions

(million euros)	**31/12/2018**	Increase	Taken to income	Used directly	Exchange differences and other changes	**31/12/2019**
Provision for taxation and tax risks	**65**	22	-	-20	7	**74**
Provision for restoration costs	**6**	-	-	-	2	**8**
Provision for legal disputes	**130**	78	-	-94	-2	**112**
Other provisions	**2**	-	-	-	-	**2**
Total	**203**	**100**	**-**	**-114**	**7**	**196**
of which:						
non-current portion	**189**	102	-	-111	7	**187**
current portion	**14**	-	-	-5	-	**9**

Provision for taxation and tax risks. The figure at December 31, 2019 mainly related to companies in the Brazil Business Unit (74 million euros *vs.* 61 million euros at December 31, 2018).

Provision for legal disputes includes the provision for litigation with employees, social security entities, regulatory authorities and other counterparties and refers to the Brazil Business Unit. The uses consisted of 94 million euros and resulted from settlement agreements reached.

Note 21 - Miscellaneous payables and other non-current liabilities

(million euros)	31/12/2019	31/12/2018
Deferred revenues from customer contracts (Contract liabilities) [*]	-	1
Other deferred income	182	203
Income tax payables	42	42
Other	13	13
Total	**237**	**259**

[*] This account derives from the application of IFRS 15.

Other deferred income includes the non-current portion of approximately 174 million euros in 2019 (190 million euros as at December 31, 2018) of deferred gain on the sale and lease back of the telecommunication towers of the Brazil Business Unit.

Note 22 - Trade and miscellaneous payables and other current liabilities

(million euros)	31/12/2019	Of which Financial Instruments	31/12/2018	Of which Financial Instruments
Trade payables	**943**	**943**	**1.072**	**1.072**
Payables to suppliers	912	912	1.036	1.036
Payables to other telecommunication operators	31	31	36	36
Tax payables	**136**	**136**	**139**	**139**
Miscellaneous payables	**108**	**49**	**99**	**35**
Payables for employee compensation	34	-	34	-
Payables to social security agencies	12	-	12	-
Payables for TLC operating fee	4	-	4	-
Dividends approved, but not yet paid to shareholders	49	49	35	35
Provisions for risks and charges for the current portion expected to be settled within 1 year	9	-	14	-
Other current liabilities	**62**	**4**	**92**	**4**
Deferred revenues from customer contracts (Contract liabilities)	9	4	8	4
Customer-related items	37	-	64	-
Other deferred income	16	-	20	-
Advances received	-	-	-	-
Other current liabilities	-	-	-	-
Total	**1.249**	**1.132**	**1.402**	**1.250**

Trade payables amounting to 943 million euros as at December 31, 2019 (1.072 million euros at December 31, 2018) are mainly referred to the Brazil Business Unit (938 million of euros).

Tax payables amounting to 136 million euros as at December 31, 2019 are referred to the Brazil Business Unit (139 million euros at December 31, 2018).

Other current liabilities includes current contract liabilities, recognized when the client has paid the consideration or when the Company has the right to a consideration amount that is unconditional, before the Company has complied with the performance obligation, whether through the sale of equipment/devices or the provision of services to the client and customer-related items, that include trade payables following contractual relationships, such as the payable for prepaid traffic and the subscription charges charged in advance.

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Note 23 - Disputes and pending legal actions, other information, commitments and guarantees

A description is provided below of the most significant judicial, arbitration and tax disputes in which the Group companies are involved as at December 31, 2019, as well as those that came to an end during the financial year.

SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes
As of 31 December 2019, the companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totalling around 16,2 billion reais (around 3,6 billion euros). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes

On March 22, 2011, TIM Celular S.A. (company incorporated into TIM S.A. starting from October 31, 2018) was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1.265 million reais (279 million euros as at December 31, 2019) as of the date of the notification, including fines and interest, as a result of the completion of a tax investigation concerning financial years 2006, 2007, 2008 and 2009 for the companies TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A. (formerly Maxitel), companies which have been progressively incorporated into TIM Celular with the aim of rationalizing the corporate structure in Brazil.

The assessment notice includes various adjustments; the main challenges may be summarized as follows:

- non-recognition of the tax effects of the merger of TIM Nordeste Telecomunicações S.A. and Maxitel S.A.;
- non-recognition of the tax deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC");
- non-recognition of certain tax offsets;
- denial of the SUDENE regional tax benefit, due to alleged irregularities in the management and reporting of the benefit itself.

The adjustments included in the assessment notice were disputed by TIM Celular, in administrative court, with the filing of its first objections on April 20, 2011. On April 20, 2012, TIM Celular received notification of the decision of the administrative court of first instance which confirmed the findings set out in the assessment notice; TIM Celular promptly filed an appeal against this decision on May 21, 2012.

The Company, as confirmed by specific legal opinions, believes it is unlikely that significant disbursements can be expected.

Still in relation to the federal level of taxation, the following additional disputed should also be noted:

- challenges regarding offsetting against previous tax losses;
- further challenges regarding the tax deductibility of the amortization of goodwill;
- imposition of income tax on certain types of exchange rate differences;
- imposition of withholding taxes on certain types of payments to foreign entities (for example, payments for international roaming);
- further challenges regarding offsets made between taxes payable and group company credit positions.

Overall, the risk for these cases, considered to be possible, amounts to 4,3 billion reais (about 0,9 billion euros).

State taxes

Within the scope of the state levy, there are numerous challenges regarding ICMS, and in particular:

- challenges concerning the reduction of the tax base due to discounts granted to customers, as well as challenges regarding the use of tax credits declared by group companies, with respect to the return of loaned telephone handset, and following the detection of contract frauds to the detriment of the companies;
- subjection of some fees owed to group companies and classified by them as fees for services other than telecommunications to ICMS;
- challenges over the use of the "PRO-DF" tax benefit originally granted by some States, and subsequently declared unconstitutional (the challenge refers to the actual credit due to ICMS, declared by the TIM Cellular on the basis of the aforementioned tax benefits);
- challenges relating to the use of ICMS credits, claimed by Group Companies as a result of the acquisition of tangible assets, and in relation to the supply of electricity to the Companies, as well as in application of the provisions on acting as a withholding agent;
- fines imposed on group companies for irregularities in tax return compliance.

In February 2018 the State of São Paulo notified two tax assessments regarding ICMS to TIM Celular, for a total amount of 679 million reais (around 150 million euros; at the date of the assessment, including fines and interest). The first assessment (344 million reais or 76 million euros) regarded a challenge of ICMS credits in relation to acting as a withholding agent, applicable when equipment is bought and distributed in different States. The second assessment (335 million reais or 74 million euros) challenged ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers, against subsequent top-ups.

In June 2018 the State of São Paulo notified two further tax assessments to TIM Celular, again relating to ICMS, for a total amount of 369 million reais (81 million euros; at the date of the assessment, including fines and interest). This assessment too relates to ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers against subsequent top-ups, as well as to the fines imposed for ICMS breaches. For a minor part of the claim, the company decided to authorize payment of the amount requested, instead of starting legal proceedings, benefiting from a discount on the fine. The dispute thus continues for the remaining amount, 296 million reais (around 65 million euros).

Overall, the risk for these cases, considered to be possible, amounts to 8,2 billion reais (about 1,8 billion euros).

Municipal taxes
Among disputes classified with a "possible" degree of risk, there are some relating to municipal taxes for a total amounting to around 0,7 billion reais (about 0,2 billion euros).

FUST and FUNTTEL
The main challenges about contributions to the regulatory body (Anatel), and in particular in terms of FUST and FUNTTEL, concern whether or not interconnection revenues should be subject to these contributions.
Overall, the risk for these cases, considered to be possible, amounts to 3 billion reais (around 1 billion euros).

Contingent assets related to exclusion of ICMS from the PIS/COFINS tax base
In March 2017, the Supreme Federal Court of Brazil recognized the inclusion of ICMS in the calculation of the PIS/COFINS contribution as unconstitutional. The companies of the TIM Brasil Group (formerly TIM Nordeste, TIM Celular and TIM S.A.) have been involved in legal proceedings since 2006, with reimbursement requests related - as allowed - to the previous five years, and therefore with effect from 2001.
During 2018, following a definitive and indisputable decision, the Company recognized a receivable of 353 million reais (around 0,1 billion euros), of which 159 million reais (around 0,04 billion euros) for tax and 194 million reais (around 0,04 billion euros) for legal revaluations (amounts relating to the then TIM Nordeste).

During the year 2019, as a result of two final decisions (TIM Celular S.A. and TIM S.A.), the company has posted an additional receivable of 3.024 million reais (around 0,7 billion euros), of which 1.795 million reais (around 0,4 billion euros) for tax and 1.229 million reais (around 0,3 billion euros) for stautory revaluation by law, as detailed in the following table:

	Year 2019 (millions of euros)	Year 2019 (millions of reais)
ICMS indirect tax recovery:	685	3.024
Tax (principal)	407	1.795
Legal revaluation (Monetary Adjustment)	278	1.229
Deferred Taxes	-233	-1.028
Net impact	**452**	**1.996**

The use of the recognized tax receivables started from the end of 2019, in compliance with the formal certification procedures established by the Brazilian tax authorities with a conjectured horizon of three years, and will be subject to taxation; therefore, deferred direct taxes with a horizon were recognized.

<u>Brazil - Opportunity Arbitration</u>
In May 2012, TIM and Telecom Italia International N.V. (now merged in Telecom Italia Finance) were served with a notice of arbitration proceedings brought by the Opportunity group, claiming compensation for damages allegedly suffered for presumed breach of a settlement agreement signed in 2005. Based on the plaintiff's allegations, the damages relate to circumstances that emerged in the criminal proceedings pending before the Milan Court regarding, inter alia, unlawful activities engaged in by former employees of TIM. The investigatory phase having been completed, the hearing for oral discussion took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case. In September 2015, the Board of Arbitration declared the proceedings closed, as the award was going to be filed. Subsequently, the Board of Arbitration allowed the parties to exchange short arguments and the ICC Court extended the term for the filing of the award. In September 2016 the ICC Court notified the parties of its judgment, based on which the Board of Arbitration rejected all the claims made by the Opportunity group and decided that the legal costs, administrative costs and costs for expert witnesses should be split between the parties. In April 2017 the Opportunity group filed an appeal against the arbitration award before the Paris Court of Appeal. In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC's International Court of Arbitration notice of a Request for Revision of the arbitration finding, filed by the Opportunity group, asking for a new ruling. A Board of Arbitration was subsequently established. In October 2018, TIM and Telecom Italia Finance requested proceedings with the Paris Court of Appeal to be suspended, in the light of proceedings pending with the Court of Arbitration of the International Chamber of Commerce to review the same arbitration award. In November 2018, the Paris Court of Appeal suspended the proceedings until the decision is taken by the Court of Arbitration in the review proceedings. As regards the proceedings to review the award, in October 2019 the ICC held the discussion hearing in Paris.

COMMITMENTS AND GUARANTEES

TIM S.p.A. has provided to the Group the following guarantees:

(million euros)	31/12/2019	31/12/2018
Guarantee on bonds and other debts issued by the Group	1.179	1.174
Guarantee on derivatives financial instruments	203	178
Total	**1.382**	**1.352**

There are also surety bonds on the telecommunication services in Brazil for 115 million euros.

The Group has provided to Telecom Italia Capital (related party) a guarantee covering the full amount of a credit line amounting to 250 million euros, which represents the maximum credit risk exposure relating to this financial guarantee contract.

ASSETS PLEDGED TO GUARANTEE FINANCIAL LIABILITIES

The contracts for low-rate loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to TIM Celular (now merged in TIM S.A.) for a total equivalent amount of 147 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

Note 24 - Revenues

(million euros)	Year 2019	Year 2018
Equipment sales	177	180
Services	3.760	3.763
Total	**3.937**	**3.943**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 139 million euros in 2019 (194 million euros in 2018, -28,5% change), included in the costs of services.

For a breakdown of revenues by operating segment, reference should be made to the Note "Segment Reporting".

Note 25 - Other income

(million euros)	Year 2019	Year 2018
Late payment fees charged for telephone services	11	10
Income tax Brazil Business Unit	685	37
Other income	12	22
Total	**708**	**69**

Other income only relates to the Brazil Business Unit and included for the income related to the recognition in the Brazil Business Unit of tax receivables resulting from the favourable outcome of disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating the PIS/COFINS contribution, for which the Company has been suing since 2006, with refund requests referring - as permitted - to the previous five years, and therefore with effect from 2001. The benefit from 2019, amounting to 685 million euros, includes 407 million euros in tax refunds and 278 million euros in revaluations required by law.

Note 26 - Acquisition of goods and services

(million euros)	Year 2019	Year 2018
Acquisition of raw materials and merchandise	**221**	**225**
Costs of services	**1.041**	**1.274**
Revenues due to other TLC operators	139	194
Commissions, sales commissions and other selling expenses	398	444
Advertising and promotion expenses	80	97
Professional and consulting services	105	101
Utilities	84	77
Maintenance	59	56
Outsourcing costs for other services	93	94
Mailing and delivery expenses for telephone bills, directories and other materials to customers	34	91
Other service expenses	49	120
Lease and rental costs	**191**	**353**
Rent and leases	59	212
TLC circuit lease rents and rents for use of satellite systems	112	129
Other lease and rental costs	20	12
Total	**1.453**	**1.852**

Note 27 - Employee benefits expenses

(million euros)	Year 2019	Year 2018
Wages and salaries	203	201
Social security expenses	67	64
Other employee benefits	54	53
Total	**324**	**318**

The employee benefits expenses are mainly related to the Brazil Business Unit for 323 million euros (317 million euros in 2018).

Note 28 - Other operating expenses

(million euros)	Year 2019	Year 2018
Write-downs and expenses in connection with credit management	170	127
Provision charges	79	81
TLC operating fees and charges	219	238
Indirect duties and taxes	12	8
Penalties, settlement compensation and administrative fines	22	22
Association dues and fees, donations, scholarships and traineeships	1	2
Sundry expenses	22	18
Total	**525**	**496**
of which, included in the supplementary disclosure on financial instruments	*170*	*127*

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Note 29 - Internally generated assets

(million euros)	Year 2019	Year 2018
Intangible assets with a finite useful life	27	25
Tangible assets owned	70	70
Total	**97**	**95**

Internally generated assets mainly include labour costs of dedicated technical staff for software development and work in connection with the executive design, construction and testing of network installations.

Note 30 - Depreciation and amortization

(million euros)	Year 2019	Year 2018
Amortization of intangible assets with a finite useful life	**418**	**394**
Industrial patents and intellectual property rights	318	305
Concessions, licenses, trademarks and similar rights	99	87
Other intangible assets	1	2
Depreciation of tangible assets owned	**511**	**505**
Buildings (civil and industrial)	1	1
Plant and equipment	459	449
Other	51	55
Depreciation of tangible assets held under finance leases	**-**	**16**
Plant and equipment	-	16
Depreciation of right of use assets	**236**	-
Plant and equipment	236	-
Total	**1.165**	**915**

For further details refer to the Notes "Tangible and intangible assets with finite useful lives" and "Rights of use assets".

For a breakdown of depreciation and amortization by operating segment, reference should be made to the Note "Segment Reporting".

Note 31 - Gains/(losses) on disposals of non-current assets

(million euros)	Year 2019	Year 2018
Gains on disposals of non-current assets	**12**	**12**
Gains on the retirement/disposal of intangible and tangible assets	12	12
Lossess on disposals of non-current assets:	**1**	**-**
Lossess on the retirement/disposal of intangible and tangible assets	1	-
Total	**11**	**12**

In 2019, the item posted a positive 11 million euros, connected with the ordinary asset renewal process.

Note 32 - Finance income and expenses

FINANCE INCOME

(million euros)	Year 2019	Year 2018
Interest income and other finance income	**316**	**378**
Income from financial receivables, recorded in non-current assets	88	86
Income from securities other than investments, recorded in non-current assets	3	3
Income from securities other than investments, recorded in current assets	5	5
Income other than the above:		
Interest income	37	44
Exchange gains	32	40
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Income from non-hedging derivatives	138	150
Miscellaneous finance income	12	49
Positive fair value adjustments to non-hedging derivatives	**113**	**110**
Positive adjustments and reversal for impairment on financial assets	**8**	**4**
Total	**437**	**492**

FINANCE EXPENSES

(million euros)	Year 2019	Year 2018
Interest expenses and other finance expenses	**604**	**505**
Interest expenses and other costs relating to bonds	3	3
Interest expenses to banks	18	22
Interest expenses to others	112	99
Interest expenses on lease liabilities	195	53
Expenses other than the above:		
Commissions	17	13
Exchange losses	30	41
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Charges from non-hedging derivatives	135	149
Miscellaneous finance expenses	93	124
Negative fair value adjustments to non-hedging derivatives	**115**	**109**
Negative adjustments for impairment on financial assets	**9**	**12**
Total	**728**	**626**

For greater clarity of presentation, the net effects relating to derivative financial instruments are summarized in the following table:

(million euros)	Year 2019	Year 2018
Exchange gains	33	40
Exchange losses	-30	-41
Net exchange gains and losses	**3**	**-1**
Positive Reversal of the Reserve for cash flow hedge derivatives	1	1
Negative Reversal of the Reserve for cash flow hedge derivatives	-1	-1
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**0**	**0**
Income from non-hedging derivatives	138	150
Charges from non-hedging derivatives	-135	-149
Net result from non-hedging derivatives	**3**	**1**
Net result from derivatives	**3**	**1**
Positive fair value to non-hedging derivatives	113	110
Negative fair value adjustments to non-hedging derivatives	-115	-108
Net fair value adjustments to non-hedging derivatives	**-2**	**2**
Positive adjustments and reversal for impairment on financial assets	8	4
Negative adjustments for impairment on financial assets	-9	-12
Net impairment on financial assets	**-1**	**-8**

Note 33 - Segment reporting

SEGMENT REPORTING

Segment reporting is based on the following operating segments:

- Telecommunications (Brazil)
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(million euros)	Brazil		Other Operations		Consolidated Total	
	Year 2019	Year 2018	Year 2019	Year 2018	Year 2019	Year 2018
Third-party revenues	3.937	3.943	-	-	3.937	3.943
Revenues by operating segment	**3.937**	**3.943**	**-**	**-**	**3.937**	**3.943**
Other income	708	69	-	-	708	69
Total operating revenues and other income	**4.645**	**4.012**	**-**	**-**	**4.645**	**4.012**
Acquisition of goods and services	-1.451	-1.847	-2	-5	-1.453	-1.852
Employee benefits expenses	-323	-317	-1	-1	-324	-318
Other operating expenses	-521	-492	-4	-4	-525	-496
of which: write-downs and expenses in connection with credit management and provision charges	*-248*	*-208*	*-*	*-*	*-248*	*-208*
Change in inventories	5	14	-	-	5	14
Internally generated assets	97	95	-	-	97	95
EBITDA	**2.452**	**1.465**	**-7**	**-10**	**2.445**	**1.455**
Depreciation and amortization	-1.165	-915	-	-	-1.165	-915
Gains/(losses) on disposals of non-current assets	11	12	-	-	11	12
EBIT	**1.298**	**562**	**-7**	**-10**	**1.291**	**552**
Other income (expenses) from investments					-	-
Finance income					437	492
Finance expenses					-728	-626
Profit (loss) before tax					**1.000**	**418**
Income tax income (expense)					-208	133
Profit (loss) for the year					**792**	**551**
Attributable to:						
Owners of the Parent					519	351
Non-controlling interests					272	200

Revenues by operating segment

The revenues only relate to the Brazil Business Unit.

Purchase of intangible and tangible assets by operating segment

Purchase of intangible and tangible assets only relates to the Brazil Business Unit.

Assets and liabilities by Operating Segment

(millions of euros)	Brazil		Other Operations		Consolidated Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current operating assets	7.498	6.037	1	1	7.499	6.038
Current operating assets	1.055	769	70	43	1.125	812
Total operating assets	**8.553**	**6.806**	**71**	**44**	**8.624**	**6.850**
Unallocated assets					6.188	6.504
Total Assets					**14.812**	**13.354**
Total operating liabilities	**1.669**	**1.841**	**6**	**10**	**1.675**	**1.851**
Unallocated assets					4.357	3.297
Equity					8.780	8.206
Total Equity and Liabilities					**14.812**	**13.354**

Note 34 - Related party transactions

The following tables show the figures relating to related party transactions and the impact of those amounts on the Separate Consolidated Income Statement and Consolidated Statement of Financial Position.

Related party transactions, when not dictated by specific laws, were conducted at arm's length.

The effects on the individual line items of the Group's Separate Consolidated Income Statements for the years 2019 and 2018 are as follows:

Separate Consolidated Income Statement line items 2019

(million euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**3.937**	-	2	-	-	2	0,0
Other income	**708**	-	-	-	-	-	0,0
Acquisition of goods and services	**1.453**	-	91	-	-	91	6,3
Employee benefits expenses	**324**	-	-	4	7	-	3,4
Other operating expenses	**525**	-	-	-	-	-	0,0
Finance income	**437**	-	215	-	-	215	49,1
Finance expenses	**728**	-	127	-	-	127	17,5

Separate Consolidated Income Statement line items 2018

(million euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**3.943**	-	2	-	-	2	0,0
Other income	**69**	-	-	-	-	-	0,0
Acquisition of goods and services	**1.852**	-	98	-	-	98	5,3
Employee benefits expenses	**318**	-	-	4	9	-	4,1
Other operating expenses	**496**	-	-	-	-	-	0,0
Finance income	**492**	-	181	-	-	181	36,9
Finance expenses	**626**	-	163	-	-	163	26,1

The effects on the individual line items of the consolidated statements of financial position at December 31, 2019 and 2018 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2019

(million euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-1.692**	**-**	**-2.229**	**-**	**-2.229**	**0,0**
Non-current financial assets	**-1.927**	**-**	**-1.515**	**-**	**-1.515**	**78,6**
Current financial assets	**-4.077**	**-**	**-1.122**	**-**	**-1.122**	**27,5**
Securities other than investments (current assets)	**-877**	-	-	-	0	**0,0**
Financial receivables and other current financial assets	**-542**	-	-525	-	-525	96,9
Cash and cash equivalents	**-2.658**	-	-597	-	-597	22,5
Non-current financial liabilities	**3.416**	**-**	**372**	**-**	**372**	**10,9**
Current financial liabilities	**896**	**-**	**36**	**-**	**36**	**4,0**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**1.122**	-	5	-	5	0,4
Miscellaneous payables and other non-current liabilities	**237**	-	-	-	-	0,0
Trade and miscellaneous payables and other current liabilities	**1.249**	-	24	-	24	1,9

Consolidated Statement of Financial Position line items at 31/12/2018

(million euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-2.872**	**-**	**-3.665**	**-**	**-3.665**	**0,0**
Non-current financial assets	**-2.329**	**-**	**-1.936**	**-**	**-1.936**	**83,1**
Current financial assets	**-3.798**	**-**	**-2.135**	**-**	**-2.135**	**56,2**
Securities other than investments (current assets)	**-864**	-	-	-	0	**0,0**
Financial receivables and other current financial assets	**-1.538**	-	-1.515	-	-1.515	98,5
Cash and cash equivalents	**-1.396**	-	-620	-	-620	44,4
Non-current financial liabilities	**2.205**	**-**	**350**	**-**	**350**	**15,9**
Current financial liabilities	**1.050**	**-**	**56**	**-**	**56**	**5,4**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**833**	-	18	-	18	2,2
Miscellaneous payables and other non-current liabilities	**259**	-	-	-	-	0,0
Trade and miscellaneous payables and other current liabilities	**1.402**	-	39	-	39	2,8

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(million euros)	Year 2019	Year 2018	Type of contract
Other pension funds	4	4	Contributions to pension funds
Total employee benefits expenses	**4**	**4**	

There are no transactions with pension funds in the Consolidated Statement of Financial Position.

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in 2019 amounted to 7 million euros (9 million euros in 2018). The compensation of key Management personnel for services rendered is shown below:

(million euros)	Year 2019	Year 2018
Short-term benefits	6	6
Long-term benefits	-	1
Share-based payments remuneration	1	2
Total remuneration to key managers	**7**	**9**

Starting from 2019, the Group considers as key managers the statutory officers and the Board of Directors, hence, for comparison reasons, the 2018 figures related to remuneration have been restated in the current note.

Note 35 - Equity compensation plans

The equity compensation plans in force at December 31, 2019 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.
A summary is provided below of the plans in place at December 31, 2019.

DESCRIPTION OF STOCK OPTION PLANS

TIM Participações S.A. Stock Option Plan

• 2011-2013 Plan
On August 5, 2011, the General Meeting of Shareholders of TIM Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. Exercise of the options is subject to achieving two objectives simultaneously:
- absolute performance: increase in value of the TIM Participações S.A.'s shares;
- relative performance: performance of the prices of TIM Participações S.A.'s shares against a benchmark index mainly composed of in the Telecommunications, Information Technology and Media industry.

Performance targets refer to the three-year period 2011-2013 and performance is recorded in July of each year.
The vesting period is 3 years (33% the first year, 66% the second year and the balance in the third year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

- Year 2011
  The grantees of the options were granted the right to purchase a total of 2.833.596 shares. The exercise period expired in August 2017. As such, the plan is now closed.
- Year 2012
  On September 5, 2012 the grantees of the options were granted the right to purchase a total of 2.661.752 shares. The exercise period expired in September 2018; the 194.756 pending options were canceled and so the plan was closed.
- Year 2013
  On July 30, 2013, the grantees of the options were granted the right to purchase a total of 3.072.418 shares. In July 2019 the terms of the year expired, the 543.583 pending options were cancelled and the plan is therefore concluded.

• 2014-2016 Plan
On April 10, 2014, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. Exercise of the options is not subject to the achievement of specific performance targets, but the exercise price is adjusted upwards or

downwards according to the performance of the Tim Participações S.A. shares in a ranking of Total Shareholder Return, in which companies in the Telecommunications, Information Technology and Media industry are compared during each year of validity of the plan. If the performance of the Tim Participações S.A. shares, in the 30 days prior to September 29 of each year, is in last place in that ranking, the participant loses the right to 25% of the options vesting at that time. The vesting period is 3 years (a third per year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

- Year 2014
  On September 29, 2014, the grantees of the options were granted the right to purchase a total of 1.687.686 shares. In 2019, 32.511 options were exercised and 121.175 expired due to a number of terminations, giving a total of 1.249.465 expired options and 59.935 exercised options. In its first and second tranche of the year it was valued at 13,8652 reais, up by 3,33% based on the ranking of the companies being benchmarked. In the last tranche, the options have been exercised with a price of 13.4184 reais. At the end of December 2019, 378.286 options were still valid.

- Year 2015
  On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3.355.229 shares. In 2019 159.675 options have been exercised, for a total of 1.646.080 options expired and 1.576.301 options vested. The first tranche exercised was valued at 8,7341 reais, up by 3,33% based on the ranking of the companies being benchmarked. In the second tranche, the options have been exercised with a price of 8,4526 reais. In the last tranche, the options have been exercised, with a price of 7,6074 reais with a discount of 10% based on the ranking of the companies being benchmarked. At the end of December 2019, 132.848 options were still valid.

- Year 2016
  On n November 8, 2016, the grantees of the options were granted the right to purchase a total of 3.922.204 shares. In December 2019 476.182 options were exercised, for a total of 1.727.424 options expired and 1.775.440 options vested. In its first and third tranche of the year it was valued at 7,6928 reais with a discount of 5% based on the ranking of the companies being benchmarked. The first tranche, the options have been exercised with a price of 7,2879 reais with a discount of 10% based on the ranking of the companies being benchmarked. At the end of December 2019, 419.340 options were still valid.

• 2018-2020 Plan
On April 19, 2018, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. The plan aims to remunerate participants with shares issued by the company, subject to specific temporal and/or performance conditions (upon reaching specific targets). The vesting period is 3 years (a third per year) and the company does not have the legal obligation to repurchase or liquidate the shares in cash or in any other form. The portion of shares linked to performance (70%) is granted 1/3 each year, if the performance target is achieved; the remaining portion of shares (30%) is granted 3 years after allocation. The plan - in addition to provide the transfer of the shares - also includes the possibility of the payment of the equivalent value in cash.

- Year 2018
  On April 20, 2018, the grantees were granted the right to obtain a total of 849.932 shares. In 2019, 115.949 shares were allocated and 97.228 were cancelled (for a number of terminations), out a total of 480.646 expired shares. At year end 2019, 253.337 shares remain valid. The initial allocation was measured with a correction of the number of shares to 122,46%.
- Year 2019
  On July 30, 2019, the grantees were granted the right to obtain a total of 930.662 shares. As at December 31, 2019, the first vesting period has not yet finished. However, 33.418 shares were cancelled due to the participants leaving the company. At year end 2019, 897.244 shares remain valid.

Parameters used for the assignments of TIM Participações S.A. as of December 31, 2019:

Plans/Parameters	Exercise price (reais)	Nominal value (reais)	Volatility (%)	Period	Risk-free interest rate
Stock option plan 2011	8,84		51,73	6 years	11,94% per annum
Stock option plan 2012	8,96		50,46	6 years	8,89% per annum
Stock option plan 2013	8,13		48,45	6 years	10,66% per annum
Stock option plan 2014	13,42		44,60	6 years	10,66% per annum
Stock option plan 2015	8,45		35,50	6 years	16,10% per annum
Stock option plan 2016	8,10		36,70	6 years	11,73% per annum
2018-2020 Plan: stock grant 2018	-	14,41	-	3 years	n/a
2018-2020 Plan: stock grant 2019	-	11,28	-	3 years	n/a

Note 36 - Other information

EXCHANGE RATE USED TO TRANSLATE FOREIGN OPERATIONS

	Period-end exchange rates (statements of financial position)		Average exchange rates for the period (income statements and statements of cash flows)	
Local currency against 1 EUR	31/12/2019	31/12/2018	31/12/2019	31/12/2018
ARS (Argentine peso)	67,27490	43,15930	53,80911	32,85850
BRL (Brazilian real)	4,52808	4,43664	4,41422	4,30628
CHF (Swiss franc)	1,08540	1,12690	1,11263	1,15517
GBP (Pound sterling)	0,85080	0,89453	0,87750	0,88474
JPY (Japan Yen)	121,94000	125,85000	122,05500	130,39586
USD (U.S. dollar)	1,12340	1,14500	1,11954	1,18121

RESEARCH AND DEVELOPMENT

Expenditures for research and development activities are represented by external costs, labour costs of dedicated staff and depreciation and amortization. Details are as follows:

(million euros)	Year 2019	Year 2018
Development costs capitalized	27	25
Total research and development costs (expensed and capitalized)	**27**	**25**

AUDITOR'S FEES

The following schedule reports the fees due to Ernst & Young for the audit of the 2019 financial statements.

(thousands of euros)	Year 2019
Audit services	1.347
Verification services with issue of certification	20
Other assurance services	7
Total fees due to EY network for the audit and other services	**1.374**
Out of pocket	64
Total	**1.438**

Note 37 - Events subsequent to December 31, 2019

Potential impact of Coronavirus pandemic disease

In December 2019, an outbreak of a contagious disease, the Coronavirus Disease 2019 (COVID-19), began in mainland China and has since beginning of 2020, the virus spread through Europe, the US and various other countries, including Brazil. The COVID-19 outbreak has developed rapidly in 2020 and measures taken to contain the virus have affected economic activity, which in turn may have implications on the Group's results of operations and cash flows. Although the COVID-19 existed at December 31, 2019, it is the severity of the virus and the responses to the outbreak which may have an impact on the entity's operations occurred post December 31, 2019.

The Group analysed IAS10 considerations for purpose of this subsequent event in order to conclude if COVID-19 outbreak could present any impact in year-end financial statements figures or if it would only be a disclosure requirement for Group's financial statements. The COVID-19 events arose after the reporting period and not predictable by the Group any also other market participants, as such the outbreak is a non-adjusting event for the reporting period ending December 31, 2019 and no adjustment needs to be made to amounts recognized in the consolidated financial statements ended on December 31, 2019. Based on all information available as at December 31, 2019, it was not foreseeable, as at December 31, 2019, the COVID-19 could result a risk over the Group's consolidated balance sheets and the consolidated statements of income.

The Group is complying with the health and safety protocols established by the authorities and agencies is monitoring the development of the situation and closely evaluating the impact of the COVID-19 on its business. The COVID-19 pandemic and its potential impact on general commercial activity and the global economy may reduce demand from our clients for more expensive plans or certain services (e.g. roaming) or even lead to plan cancellations or increased default, while it may 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.
At this time, we have not suffered any material impact to our operations. While it is too early for us to predict the impacts on our business or our financial targets of the expanding pandemic and the governmental responses to it, we would be materially adversely affected by a protracted downturn in local, regional or global economic conditions.

Dividend distribution
On January 2020, TIM Participações S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2019 and approved on 2019 according to the following schedule:

Payment Date	Reais per share
29/01/2020	0,102353024
24/01/2020	0,156471242

Loan contract with the Banco Do Nordeste do Brasil
On January 31, 2020, TIM S.A. entered into an agreement for the loan with the Banco do Nordeste do Brasil, for a total amount of 752.479 thousands of reais: (i) 325.071 thousands of reais at cost IPCA + 1,4386% and subject to a default bonus of 15%; and (ii) 427.408 thousands of reais at cost IPCA + 1,7582% and subject to a default bonus of 15%. The aim of the facility is to fund its additions in the northeast and in the north of the states of Minas Gerais and Espírito Santo from 2019 at 2022 with a total payment term of 8 years, or 3 years of suspension (grace period) and 5 years of depreciation. The transaction will be guaranteed by (i) a surety ondemand bank of 100% of the amount of any payment; And (ii) a note equal to 5% of the amount of each payment. To date, there have been no disbursements.

Note 38 - List of companies of the Telecom Italia Finance Group

Company name	Head office	Currency	Share Capital	% Ownership	% of voting	Held by
PARENT COMPANY						
Telecom Italia Finance	Luxembourg	EUR	1.818.691.979			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
Brazil Business Unit						
• TIM Brasil Serviços & Partecipações S.A.	Rio de Janeiro	BRL	7.169.029.859	99,9999 0,0001		Telecom Italia Finance TIM S.p.A.
• TIM Participações S.A.	Rio de Janeiro	BRL	9.913.414.422	66,5819 0,0087	66,5877	TIM Brasil Serviços & Partecipações S.A. TIM Participações S.A.
• TIM S.A.	Rio de Janeiro	BRL	13.476.171.765	100,0000		TIM Participações S.A.
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
Movenda S.p.A.	Roma	EUR	133.333	24,9998		Telecom Italia Finance
TI Audit Compliance Latam S.A. (in liquidation)	Rio de Janeiro	BRL	1.500.000	69,9996 30,0004		TIM S.p.A. TIM Brasil Serviços & Partecipações S.A.
OTHER RELEVANT SHAREHOLDERS						
TIM S.p.A.	Milano	EUR	11.677.002.855	0,5900		Telecom Italia Finance

Certification of the Consolidated Financial Statements pursuant to Luxembourg Transparency Law

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Biagio Murciano, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with IFRS legal and regulatory requirements as adopted by EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Biagio Murciano
Managing Director

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working world

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Independent auditor's report

To the sole Shareholder of
Telecom Italia Finance S.A.
12 Rue Eugène Ruppert,
2453 Luxembourg

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Telecom Italia Finance S.A. (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for tax contingencies

Risk identified

The Group has tax matters under discussion at various procedural levels, for which, based on its opinion and legal counsel, Euro 3,6 billion were disclosed by the Group as possible losses as disclosed in note 23. The determination of the amount of the provision and the amounts disclosed depends on critical judgments made by management, based on the analysis of the proceedings and the corresponding prognosis for their final resolution by its legal advisors. The audit of management's assessment of the likelihood of loss in tax proceedings is complex, highly subjective and based on interpretations of tax legislation and court decisions, since there is significant uncertainty in the estimates as to the outcome of court decisions, how formerly adjudged cases have evolved and the position of the tax authorities. In addition, in view of the magnitude of the amounts involved, any changes in estimates or assumptions that impact the determination of the loss prognosis may have significant impacts on the Group's financial statements. Accordingly, this was considered as a key audit matter.

Our answer

Our audit procedures included, with the assistance of our tax experts, the following, among others:

(i) We requested and obtained confirmation from all internal and external legal advisors who are involved in the tax proceedings of the Group, confirming the amounts and prognosis of proceedings losses, as determined by the Group's management.

(ii) To test the Group's assessment of the likelihood of loss in tax proceedings, our audit procedures included, among others, the involvement of our internal Tax Controversy experts to support us in discussions regarding the forecasts made by Group's external lawyers for the most significant tax contingencies;

(iii) Additionally, for the most significant tax proceedings, we obtained additional legal opinions from other legal advisors to assess the reasonableness of the prognosis determined by the Group's legal advisors in charge of the respective proceedings, and we evaluated the arguments, case law and/or strategy of defense adopted by the Group's legal advisors.

PIS and Cofins tax recoverable

Risk identified

The Group recorded tax credits in the amount of Euro 669 million under "Direct taxes, charges and contribution recoverable" in the consolidated statement of financial position, arising from the favorable court judgments from the Tax Authorities in lawsuits in favor of the Group's subsidiary during 2019. These lawsuits recognized the right to execute State VAT (ICMS) from the Contribution Taxes on Gross Revenues for Social Integration Program (PIS) and for Social Security Financing (COFINS) computation bases for the periods covered by the lawsuits as disclosed in note 13. The Group received authorization from the competent authority in Brazil to start offsetting these credits against federal tax liabilities, since part of the Group's lawsuits seeks to ensure the continuity of the offsetting of those credits.

Our answer

Our audit procedures included, with the assistance of our tax experts, the following, among others:

(i) we read the decisions and evaluated and discussed with management the conclusions obtained by the Group, also grounded on the opinions of renowned and independent specialists, as to the appropriate moment of recognition of the tax credit resulting from final and unappealable decisions favorable to the Group, as well as its amount;

(ii) we obtained and audited the calculations prepared by the Group to measure the amounts of recoverable taxes and the corresponding monetary adjustment applicable for the period covered by the lawsuit;

(iii) we understood and evaluated Management assumptions on the measurement of the asset.

Adoption of the Accounting Standard on Leases (IFRS 16)

Risk identified

The Group adopted IFRS 16 “Leases” retrospectively, with the cumulative effect of the initial adoption recognized on its date, that is, as at January 1, 2019. The initial adoption of this standard resulted in the recognition of right-of-use assets and lease liabilities in the amount of Euro 1.163 thousand at January 1, 2109.

The Group’s management completed a study of the impacts of this new standard on its consolidated financial statements, which included: (i) estimate of the lease term, considering a non-cancellable period and the periods covered by options to extend the lease term, when his term depends solely on the Group and is reasonably certain; (ii) detailed review of the nature of the various lease contracts inherent in the telecommunications sector; (iii) use of assumptions in calculating the discount rate, which was based on the incremental interest rate for the contract period; (iv) design and implementation of internal controls to adequately capture modification or cancellation of contracts due to the course of the lease expiration and identification of new lease contracts.

The validation of reports and tools implemented by the Group’s management to ensure the totality and integrity of the lease contracts, as well as the appropriate data collection and measurement of the balances and transactions recorded in the consolidated financial statements were highly complex due to the high number of leases within the scope of the new accounting standards with a significant volume of operational lease contracts due to various network infrastructure sharing leases amongst various telecom operators in the market, with payments recorded on a linear basis over the contract term. In addition, there are certain aspects of the adoption of IFRS 16 that require of management to make judgment assumptions, such as determining the incremental borrowing rate and classifying individual leases based on their contractual terms. Accordingly, the assessment, measurement and disclosure of this matter was considered a key audit matter.

Our Answer

Our audit procedures included, among others:

(i) analysis and examination of contracts to assess whether the leasing population is complete;

(ii) comparison of the contract population provided by the procurement department, and others, with the contracts considered in the scope of the new accounting standard, checking if any of the contracts has not been considered;

(iii) On a sampling basis, whether the input data used by the Group is consistent with the original contracts;

(iv) whether the adequacy of the discount rate used by the Group is consistent with the accounting standard;

(v) the adequacy of the model used by the Group to determine lease liabilities;

(vi) evaluation of consolidated financial statement disclosure.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the corporate governance statement but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union / Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 24 May 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Other Matter

The consolidated financial statements of Telecom Italia Finance S.A. for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 28 March 2019.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Gabriel De Maigret

Luxembourg, 21 April 2020