

Press Release

TIM: BOARD OF DIRECTORS APPROVES FINANCIAL REPORT AT 30 JUNE 2020

Since 2019, the TIM Group has applied the IFRS 16 (Leases) accounting standard. Organic results:

NET PROFIT 678 MILLION EUROS (+23% YOY)

NET FINANCIAL DEBT FOR H1 DOWN 1,697 MILLION EUROS AND 2.4 BILLION EUROS YOY

LOSS OF CONSUMER FIXED LINES ZEROED IN THE QUARTER; MOBILE LINES STABLE

OVER 500,000 NEW FIBRE CUSTOMERS

- **Adjusted Net Financial Debt After Lease: 21.1 billion euros**
- **Equity free cash flow: 978 million euros; second quarter growth from first quarter (512 million euros, +10%)**
- **Service revenues: 7.3 billion euros (-7.4% YoY). In addition to being affected by the effects of the COVID emergency, revenue trend reflects rationalisation of the product portfolio and greater discipline in commercial processes launched last year**
- **Organic EBITDA: 3.5 billion euros in the H1 (-6.9% YoY, -6.4% in the second quarter with margin at 46.1%, +1.8 pp YoY)**
- **The Board of Directors has favourably acknowledged the contents of the project for the separation of the secondary network (including the 80% held by TIM in Flash Fiber) and the partnership with KKR Infrastructure and Fastweb (FiberCop) contained in the binding offer received from KKR Infrastructure**
- **The offer of 1.8 billion euros received from KKR Infrastructure is for the purchase of 37.5% of FiberCop on the basis of an enterprise value of approximately 7.7 billion euros (equity value 4.7 billion euros), while Fastweb will have 4.5% of the share capital of FiberCop in exchange for the transfer of the 20% currently held in Flash Fiber**
- **The Board of Directors looked very favourably upon the idea to speed up the Single Network project and will be enthusiastically taking part in the works the Government intends to launch over the next few hours, consequently duly appointing the Chief Executive Officer to discuss all the relevant aspects with the government authorities**
- **The Board of Directors has been re-convened for 31 August to pass its conclusive resolutions on the FiberCop Project, potentially updated according to the outcome of the above initiatives**
- **Binding offer of 16.5 billion Reais presented for the acquisition of the mobile business of the Brazilian Group Oi by TIM Brasil, VIVO and Claro. If accepted, the offer will make the consortium a “stalking horse” in the sale process that will follow during the year**
- **Contract signed with the consortium led by Ardian Infrastructure for the acquisition of a minority stake in the holding company that owns TIM’s**

stake in INWIT. The price of 1.6 billion euros is expected to be collected by the end of the third quarter

Rome, 4 August 2020

TIM's Board of Directors met today under the chairmanship of Salvatore Rossi and approved the TIM Group financial report at 30 June 2020.

Cash flow and net financial debt reduction both accelerated in the second quarter. This result is partly due to the successful outcome of the sale of TIM's stake in INWIT, but above all to the important cash flow generated by the ordinary business. In fact, both the rationalisation of the product portfolio and a more disciplined commercial conduct which, while leading to a drop in revenues in the short term, produces an increase in cash generation and customer satisfaction, have continued. During the first half, the Customer Satisfaction Index improved by 3% for mobile, 2% for fixed and 1% for Wholesale.

Even during the most intense period of the health emergency, TIM remained fully operational and continued to provide its services, ensuring that the health of its employees was protected and investing in increasing the capacity and coverage of national networks.

Financial results were affected by the effects of the closure of stores on product sales and the reduced roaming traffic to and from abroad. Despite a short-term decline, a positive effect on the group's accounts is expected in the medium to long term following the faster adoption of digital services.

Net financial debt as of 30 June has fallen by 1,697 million euros from the end of 2019, standing at **25,971 million euros, (i.e. 21,095 million euros on an after lease basis)**. **Equity free cash flow** contributed **978 million euros** and the remainder is attributable to the partial monetisation of the investment in INWIT which more than offset the payment of 316 million euros in dividends on TIM S.p.A. ordinary and savings shares.

Significant progress was recorded in the implementation **of strategic initiatives:**

Fibre network: The Board of Directors has favourably acknowledged the contents of the project for the separation of the secondary network (including the 80% held by TIM in Flash Fiber) and the partnership with KKR Infrastructure and Fastweb (FiberCop) contained in the binding offer received from KKR Infrastructure.

The offer of 1.8 billion euros received from KKR Infrastructure is for the purchase of 37.5% of FiberCop on the basis of an enterprise value of approximately 7.7 billion euros (equity value 4.7 billion euros), while Fastweb will have 4.5% of the share capital of FiberCop in exchange for the transfer of the 20% currently held in Flash Fiber.

The Board of Directors looked very favourably upon the idea to speed up the Single Network project and will be enthusiastically taking part in the works the Government intends to launch over the next few hours, consequently duly appointing the Chief Executive Officer to discuss all the relevant aspects with the government authorities.

The Board of Directors has been re-convened for 31 August to pass its conclusive resolutions on the FiberCop Project, potentially updated according to the outcome of the above initiatives.

- **Sale of mobile towers:** agreement finalised with Ardian Infrastructure for the acquisition of a minority stake in the holding company which owns TIM's stake in INWIT and which will remain under the full control of TIM. The transaction is based on a valuation of the INWIT share of 9.47 euros (ex dividend), netting TIM approximately 1.6 billion euros.

- **Partnership for Cloud services:** the partnership with Google Cloud is operational and major clients were won in the first half of the year for the offer of joint services to Italian businesses. TIM and Google Cloud, in partnership with Intesa Sanpaolo, also launched a suite of services to offer advanced technological solutions to facilitate the operations of small and medium-sized enterprises in the lockdown period.
- **In Brazil,** TIM S.A., together with Vivo and Claro, submitted a binding offer of 16.5 billion Reais (2.7 billion euros) for the mobile business of the Oi Group. If accepted, the offer will make the consortium a “stalking horse” in the sale process that will follow during the year.

Performance in the second quarter of 2020

In the second quarter of 2020, Group's **service revenues** were **3.6 billion euros** (-8.2% YoY), while total revenues came to 3.8 billion euros (-10.1% YoY), impacted by the reduced footfall in shops during the lockdown and by the lower tourist flows to and from Italy, which led to lower volumes of roaming traffic.

In Italy, performance in the **mobile** sector is improving with a growth in “calling” lines (active in the last month) compared to the previous quarter (+87,000). This is mainly due to a continuation in the market rationality recovery trend observed in previous quarters and to a greater intensity of retention and loyalty actions towards mobile and converging customers, as well as a slowdown in commercial operations in the lockdown period.

The total number of TIM mobile lines reached 30.5 million at the end of June, in line with the previous quarter, also thanks to an improved disconnection rate (churn 4.0%, -1.3 percentage points compared to the first quarter of 2020).

In the **fixed** sector, the lockdown had an accelerating effect, speeding up the migration of the customer base towards ultrabroadband, also assisted by the greater availability of lines in white areas, in which TIM activated 7,000 cabinets, expanding FTTx access to 1.2 million new properties occupied by families and businesses. In total, 532,000 new ultrabroadband lines were activated, including 219,000 retail ones, almost twice the number in the first quarter (+84%). The total number of Retail and Wholesale **ultrabroadband lines** is therefore **7.9 million** units, up by 24% YoY and 7% on the previous quarter.

In the Business segment, the growth of ICT revenues continues, particularly thanks to the positive contribution of the partnership with Google Cloud and the successful outcome of important negotiations with major customers.

In the **Wholesale Domestic** sector, service revenues increased by 1.3%, benefiting from the new customers gained (positive net balance of 80,000 lines) as well as the continuous migration of customers to ultrabroadband (313,000 net customers gained compared to 240,000 in the first quarter).

In Brazil, the effects of the lockdown led to a 3.4% fall YoY in services revenues. The efficiencies achieved completely absorbed the fall, allowing organic EBITDA to grow by 1.0% YoY.

Group **organic EBITDA** was 1.8 billion euros (margin at 46.1%, +1.8 pp YoY). The decrease (-6.4% YoY) was smaller than the 7.5% YoY drop recorded in the first quarter of 2020, thanks to effective cost containment both in Italy (-13% YoY) and in Brazil, which partially offset the fall in revenues at domestic level and more than offset it in Brazil.

The Domestic Business Unit organic EBITDA was 1.4 billion euros, -7.8% YoY compared to a drop of 11.1% in the first quarter, also thanks to the strong drive to adopt digital services.

EBITDA After Lease was 1.6 billion euros (-6.4% YoY): 1.3 billion euros for the Domestic Business Unit (-7.5% YoY) and 0.3 billion euros for TIM Brasil (-0.5% YoY).

At Group level, investments in the second quarter stood at 655 million euros, down 18.8% YoY, thanks to the efficiencies achieved and the temporary slowdown due to the lockdown.

The **reported net result** attributable to the shareholders of the parent company stood at 118 million euros in the quarter and 678 million euros in the half year (+23% YoY).

TIM'S INITIATIVES TO DEAL WITH THE COVID-19 EMERGENCY

The COVID-19 crisis has revealed how essential connectivity and digital solutions are in emergency situations to deal with issues such as physical separation between people, the interruption of in-person services, the blocking of mobility, the interruption of school and educational services in general. Forced into physical separation by the virus, Italians have discovered that digital connectivity is the key to transforming the way they work, limiting travel to a minimum and ensuring compliance with the most rigorous safety standards.

Aware of its leading role in the digitisation of the country, TIM planned a series of initiatives to help citizens and institutions during the lockdown and gradual reopening, implementing a wide-ranging plan including with activities for people, institutions, customers and their employees.

These initiatives mainly included the following:

- to **speed up the digitisation of the country**, new cabinets have been activated to allow 1.2 million new households to access UltraBroadBand connectivity: 7,000 new FTTC cabinets activated in 1,600 municipalities. Furthermore, thanks to a series of technical interventions, which on some routes led to an increase in bandwidth of up to 37%, the company was able to cope with the significant increase in traffic during this period (peaks of up to 89% on the fixed network and up to 44% on the mobile network and an average of +55% of the volume of fixed data traffic), maintaining the quality of service unchanged;
- Fondazione TIM **donated 1 million euros** to hospitals and medical research establishments, also promoting fundraising among TIM employees;
- **over 3,000 handsets** and SIM cards **were distributed** to the hospitals most involved in dealing with the emergency and prison inmates to facilitate contact with family members and generally encourage communication with the outside world; working with the Italian national institute for the deaf (Ente Nazionale Sordi), over 1,000 handsets were delivered to deaf people with apps to facilitate use of Italian Sign Language and translate spoken messages into written messages, and vice versa, in real time;
- participating in the “Torino City Love” campaign, TIM made **innovative digital solutions** available to citizens free of charge to support healthcare, families and the elderly;
- to counter the **negative effects of the lockdown** on people, toll-free psychological support helplines were set up for citizens, a help desk for doctors and a special number for donations to the Italian Red Cross;
- the “Operazione Risorgimento Digitale” **led to the first free online school being set up for the dissemination of digital skills in Italy**. Operazione Risorgimento Digitale is a grand alliance led by TIM with Google, Cisco, NTT Data, Treccani, Confindustria Digitale, Censis, Polizia di Stato, Telefono Azzurro and many others. Adapting promptly to the needs imposed by the emergency, the scheme has provided distance learning to over 700,000 citizens;
- in order to ensure **continued education in schools**, TIM signed up to the Italian Ministry of Education's #LaScuolaContinua programme and, together with Cisco, Google, IBM and WeSchool, it made platforms and information support available to guarantee distance teaching;
- initiatives for **people, families and companies** were all aimed at offering **free connectivity and supplying services, including home working**, for the whole emergency period. In this context, over 435,000 offers were activated for Consumer customers and approximately 165,000 for Business customers;
- reflecting the exceptional circumstances, initiatives were taken to **support institutions** involved in the crisis, including the Protezione Civile (Civil Defence), the Carabinieri, Confindustria, S. Raffaele Hospital, ASST Mantua, to whom physical spaces were made available with the equipment needed to manage operations in the area, special training programs, platforms, toll-free numbers and other services to manage emergencies;
- through partnerships with public organisations and other private foundations, **innovation competitions** were promoted in the healthcare field, such as Innova per l'Italia, #EUvsVirus Hackathon and the Covid-19 Challenge;
- finally, around 36,000 of our employees were involved in the **Smart Working** programme in line with government guidelines on the management of working areas.

NON-FINANCIAL PERFORMANCE

During the first half of 2020, the social commitments included in the 2020-2022 Strategic Plan were consolidated with initiatives implemented to counter the COVID-19 emergency affecting Italy and the countries where we operate. Today more than ever, TIM's infrastructures and the work done by its people are confirmed as fundamental for overcoming the difficulties caused by physical separation and as ever stronger accelerators for achieving the objectives of the 2030 Agenda.

Sustainability governance has been further strengthened with the establishment of a Group-level committee chaired by the CEO and consisting of top management with the aim of guiding the Group's sustainability strategies, setting their objectives and monitoring achievement of the related targets, in support of the Sustainability and Strategies Committee; the committee is tasked, among other things, with speeding up implementation of the social, environmental and governance (ESG) commitments included in the 2020-2022 Strategic Plan.

Over the period, TIM maintained the ESG low risk rating by Sustainalytics and its presence in the Dow Jones Sustainability Index Europe and other important sustainability ratings.

The results of the first half of 2020 will be illustrated to the financial community during a conference call scheduled for 5 August 2020. The event will start at 2.00 p.m. (CET). The presentation will be followed by a Q&A session. Reporters can follow the presentation by telephone and via the web, without the option to ask questions, by calling +39 0633444 and following the instructions for assisted conferences or by connecting to the following [link](#)

The presentation slides will be available at [link](#)

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The Half-year Financial Report at 30 June 2020 of the TIM Group has been prepared in compliance with Article 154-ter (Financial Reports) of Italian Legislative Decree no. 58/1998 (Consolidated Law on Finance – CLF) as amended and supplemented, and in accordance with IAS 34 (Interim Financial Reporting) and with the international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as “IFRS”), as well as with the regulations issued to implement Article 9 of Italian Legislative Decree no. 38/2005.

The Half-year Financial Report includes:

- *the interim Report on operations;*
- *the condensed half-year consolidated financial statements;*
- *the certification of the Condensed Half-Year Consolidated Financial Statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented.*

The Condensed half-year consolidated Financial Statements as at 30 June 2020 are subject to a limited audit. This is currently underway.

The accounting criteria and consolidation principles adopted are the same as those used in the TIM Group Consolidated Financial Statements as at 31 December 2019, to which readers are referred, except for the changes to the accounting principles issued by the IASB and in force from 1 January 2020.

In order to allow a better understanding of the operations and financial position, in addition to the conventional financial indicators envisaged by the IFRS, the TIM Group uses some alternative performance indicators. Specifically, the alternative performance indicators are: EBITDA; EBIT; organic variation and impact of non-recurring items on revenues, on EBITDA and on EBIT; EBITDA margin and EBIT margin; net financial debt carrying amount and adjusted net financial debt; Equity Free Cash Flow. Furthermore, following the adoption of IFRS 16, the TIM Group presents the following additional alternative performance indicators:

- EBITDA adjusted After Lease (“EBITDA-AL”), calculated by adjusting the Organic EBITDA net of the non-recurring items, amounts connected with the accounting treatment of the leasing contracts according to IFRS 16 (applied as of 2019);
- Adjusted net financial debt After Lease, calculated by excluding the liabilities connected with the accounting treatment of the leasing contracts from the adjusted net financial debt according to IFRS 16 (applied as of 2019).
- Equity Free Cash Flow After Lease, calculated excluding leasing fee requirements from the Equity Free Cash Flow.

The meaning and content of the alternative performance indicators are illustrated in the annexes and analytical details of the amounts of the reclassifications made and the methods for determining the indicators are provided.

Note that the “Business Outlook for the 2020 financial year” chapter contains forward-looking statements about the Group’s intentions, beliefs and current expectations with regard to its financial results and other aspects of the Group’s operations and strategies. Readers of the present press release should not place undue reliance on such forward-looking statements, as final results may differ significantly from those contained in the above-mentioned forecasts owing to risks and uncertainties depending on a number of factors, the majority of which are beyond the Group’s control.

MAIN CHANGES TO THE TIM GROUP CONSOLIDATION SCOPE

The main changes to the consolidation scope that took place in the first half of 2020 were the following:

- *Infrastrutture Wireless Italiane S.p.A. (INWIT) (Business Unit Domestic)*: the merger by incorporation of Vodafone Towers S.r.l. into INWIT S.p.A. was completed on 31 March 2020. This transaction, which resulted in the birth of the first Italian Tower Operator, led to the dilution of TIM Group’ investment in the capital of INWIT from 60% to 37.5%. As of 31 March 2020, therefore, INWIT S.p.A. is valued using the equity method. Starting from the Consolidated Financial Statements as at 31 December 2019 and until the completion of the aforementioned merger, INWIT S.p.A. was presented as an “Asset held for sale”. Therefore the economic data and consolidated cash flows of the TIM Group for the first half of 2020 include the INWIT S.p.A. data for the first quarter of 2020 net of depreciation and amortization for the period, as required by IFRS 5. It is worth noting furthermore that on 23 April 2020 an equity package of 4.3% of the share capital of INWIT was sold through an accelerated book-building procedure reserved for institutional investors. Consequently, TIM’s investment in INWIT as of 30 June 2020 was 33.2%.
- *Noovle S.r.l. (Business Unit Domestic)*: on 21 May 2020, TIM S.p.A. completed the acquisition of 100% of the shares in Noovle S.r.l., an Italian ICT and system integration consultancy company specialising in the supply of cloud projects and solutions and among the leading Google Cloud partners in the Italian market. Since that date, Noovle S.r.l. and its subsidiaries have been consolidated on a line-by-line basis.

No significant changes occurred in the scope of consolidation in the first half of 2019.

TIM GROUP RESULTS FOR THE FIRST HALF OF 2020

Total TIM Group revenues in the first half of 2020 amounted to **7,759 million euros**, down by 13.7% on the first half of 2019 (8,994 million euros); the organic change in total revenues is -9.2%.

The analysis total revenues for the first half of 2020, broken down by operating segment, compared to the first half of 2019, is the following:

(million euros)	H1 2020		H1 2019		Changes		
		% of total		% of total	absolute	%	organic % excluding non-recurrent
Domestic	6,259	80.7	7,069	78.6	(810)	(11.5)	(10.7)
Brazil	1,517	19.6	1,946	21.6	(429)	(22.0)	(3.0)
Other Activities	-	-	-	-	-	-	-
Adjustments and eliminations	(17)	(0.3)	(21)	(0.2)	4	-	-
Consolidated Total	7,759	100.0	8,994	100.0	(1,235)	(13.7)	(9.2)

The organic change in the Group's consolidated revenues for the first half of 2020 is calculated by excluding the negative effect of changes in exchange rates ⁽¹⁾ of -380 million euros, changes in the scope of consolidation⁽²⁾ of -39 million euros, as well as the non-recurring component. The adjustments of non-recurring revenues in the first half of 2020 (-37 million euros) are connected to the commercial initiatives taken by TIM S.p.A. to support customers in countering the COVID-19 emergency, while the first half of 2019 suffered non-recurring charges of 15 million euros related to adjustments to revenues from previous years.

As mentioned in the "Main changes in the scope of consolidation of the TIM Group" chapter, the company Noovle S.r.l. and its subsidiaries are consolidated on a line-by-line basis since the date on which control was acquired by the TIM Group (21 May 2020). If the acquisition of Noovle S.r.l had been completed on 1 January 2020, the condensed consolidated half-year financial statements of the TIM Group would have recorded revenues approximately 14 million euros higher, with insignificant effects on the net result for the period.

EBITDA in the first half of 2020 totalled 3,398 million euros (4,391 million euros in the first half of 2019; -22.6%), with a margin of 43.8% (48.8% in the first half of 2019, -5.0 percentage points).

The details of EBITDA of the first half of 2020, broken down by operational sector, compared to the first half of 2019, and the percentage margin on revenues are as follows:

(million euros)	H1 2020		H1 2019		Changes		
		% of total		% of total	absolute	%	organic % excluding non-recurrent
Domestic	2,684	79.0	2,929	66.7	(245)	(8.4)	(9.5)
<i>Margin (%)</i>	<i>42.9</i>		<i>41.4</i>			<i>1.5 pp</i>	<i>0.6 pp</i>
Brazil	718	21.1	1,467	33.4	(749)	(51.1)	4.4
<i>Margin (%)</i>	<i>47.3</i>		<i>75.3</i>			<i>(28.0) pp</i>	<i>3.3 pp</i>
Other Activities	(5)	(0.1)	(5)	(0.1)	-	-	-
Adjustments and eliminations	1	-	-	-	1	-	-
Consolidated Total	3,398	100.0	4,391	100.0	(993)	(22.6)	(6.9)
<i>Margin (%)</i>	<i>43.8</i>		<i>48.8</i>			<i>(5.0) pp</i>	<i>1.1 pp</i>

Organic EBITDA net of the non-recurring component stood at 3,535 million euros accounting for 45.3% of revenues (3,799 million euros in the first half of 2019, accounting for 44.2% of revenues).

(1) The average exchange rates used for the conversion into euros (expressed in terms of units of local currency per 1 euro) were 5.40843 for the Brazilian real in the first half of 2020 and 4.34394 in the first half of 2019. For the US dollar, the average exchange rates used were 1.10186 in the first half of 2020 and 1.12977 in the first half of 2019. The impact of the change in the rates of exchange is calculated by applying the conversion rates of the foreign currencies used for the current period to the comparison period.

(2) For comparison purposes, the changes in the scope of consolidation also include the effects, effective 31 March 2019, of the new Master Service Agreement signed by TIM S.p.A. with INWIT S.p.A. during the first quarter of 2020.

In the first half of 2020, the TIM Group recorded non-recurring charges of 137 million euros in total, 69 million euros of them attributable to the COVID-19 emergency in Italy. In addition to the impacts of TIM S.p.A.'s commercial initiatives in support of customers, operating costs relating to the COVID-19 emergency were recorded, including provisions and charges connected with credit management resulting from the deterioration of the macroeconomic framework. The first half of 2020 was also affected by non-recurring charges connected mainly with corporate reorganisation/restructuring processes and provisions for disputes, regulatory sanctions and potential liabilities related to them.

In the first half of 2019, the TIM Group recorded non-recurring net income of 332 million euro, as the balance between income of 662 million euro, resulting from the Brazil Business Unit posting tax credits arising from the favourable outcome of tax disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating the PIS/COFINS contribution, and non-recurring charges of 330 million euros posted by the Domestic and Brazil Business Units mainly relating to provisions for regulatory disputes and potential liabilities related to them, to liabilities towards customers and/or suppliers, plus charges related to corporate reorganization/restructuring processes as well as to the aforementioned adjustments to revenues from previous years.

Organic EBITDA, net of the non-recurring component, was calculated as follows:

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
EBITDA	3,398	4,391	(993)	(22.6)
Foreign currency translation		(289)	289	
Changes in the consolidation scope		(91)	91	
Non-recurring charges /(income)	137	(332)	469	
Effect of the conversion of foreign currency non-recurring Charges/(Income)		120	(120)	
ORGANIC EBITDA excluding non-recurring component	3,535	3,799	(264)	(6.9)

EBIT for the first half of 2020 amounted to **1,042 million euros** (1,887 million euros in the first half of 2019).

Organic EBIT, net of the non-recurring component, amounted to 1,179 million euros (1,441 million euros in the first half of 2019), with an EBIT margin of 15.1% (16.8% in the first half of 2019).

Organic EBIT, net of the non-recurring component, was calculated as follows:

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
EBIT	1,042	1,887	(845)	(44.8)
Foreign currency translation		(170)	170	
Changes in the consolidation scope		(64)	64	
Non-recurring charges /(income)	137	(332)	469	
Effect of the conversion of foreign currency non-recurring Charges/(Income)		120	(120)	
ORGANIC EBIT excluding non-recurring component	1,179	1,441	(262)	(18.2)

The effect of exchange rate changes is mainly related to the Brazil Business Unit.

The **other income (charges) from equity investments** amounted to 448 million euros and included 441 million euros relating to the net capital gain recognised following the dilution from 60% to 37.5% of the TIM Group's equity investment in the capital of INWIT S.p.A. following the merger of INWIT with Vodafone Towers as well as 7 million euros relating to the capital gain connected with the sale, on 23 April 2020, of the 4.3% held by TIM S.p.A. in INWIT.

The net profits for the first half of 2020 attributable to the Shareholders of the Controlling Company stood at 678 million euros (551 million euros in the first half of 2019).

The TIM Group **headcount** as of 30 June 2020 was 55,083, including 45,236 in Italy (55,198 as of 31 December 2019, including 45,266 in Italy) down by 115 compared to 31 December 2019, including -31 in Italy. Compared to 30 June 2019, the reduction was 2,233.

During the first half of 2020, **capital expenditure** amounted to **1,254 million euros** (1,481 million euros in the first half of 2019).

Capital expenditure and investments in mobile telephony/ spectrum licenses are broken down by operating sector as follows:

(million euros)	H1 2020		H1 2019		Changes
		% of total		% of total	
Domestic	963	76.8	1,114	75.2	(151)
Brazil	291	23.2	367	24.8	(76)
Other Activities	-	-	-	-	-
Adjustments and eliminations	-	-	-	-	-
Consolidated Total	1,254	100.0	1,481	100.0	(227)
<i>Margin (%)</i>	<i>16.2</i>		<i>16.5</i>		<i>(0.3) pp</i>

Specifically:

- the **Business Unit Domestic** posted investments of 963 million euros, down by 151 million euros (-135 million euros in organic terms) compared to the first half of 2019, mainly due to a postponement of some activities, also as a result of the restrictions imposed by the COVID-19 emergency;
- the **Brazil Business Unit** posted capital expenditure of 291 million euros, down by 76 million euros on the first half of 2019 (367 million euros). Excluding the impact of exchange rate changes, (-72 million euros), the organic reduction was 4 million euros. Capital expenditure was primarily targeted at strengthening the mobile ultrabroadband network and developing the TIM Live fixed broadband business.

The Group's **Operating Free Cash Flow** totalled 1,545 million euros (1,819 million euros in the first half of 2019).

Adjusted net financial debt was 25,971 million euros as of 30 June 2020, **1,697 million euros lower than on 31 December 2019** (27,668 million euros). Solid operating cash flow generation, achieved in particular by optimising working capital, guaranteeing the payment of dividends on ordinary shares and savings of TIM S.p.A. for a total of 316 million euros, as well as the effects of the INWIT operation, all contributed to this reduction. With reference to INWIT in particular, the deconsolidation of the company's debt (643 million euros compared to 31 December 2019) substantially offset the new debt for financial leases in respect of INWIT, now a jointly controlled company (368 million euros), resulting from the simultaneous signing of financial leasing contracts with Vodafone (214 million euros), the collection of dividends (256 million euros, including an extraordinary dividend of 214 million euros) and the sale of 4.3% of the equity investment (400 million euros).

To make the information easier to understand, the following table shows the different ways of representing the Net Financial Debt:

(million euros)	30.6.2020	31.12.2019	Changes
	(a)	(b)	(a-b)
Net financial debt carrying amount	25,954	28,246	(2,292)
<i>Reversal of fair value measurement of derivatives and associated financial liabilities/assets</i>	17	(578)	595
Adjusted Net Financial Debt	25,971	27,668	(1,697)
<i>Leasing</i>	(4,876)	(5,204)	328
<i>Leasing - Discontinued operations/Non-current assets held for sale</i>	-	(571)	571
Adjusted Net Financial Debt - After Lease	21,095	21,893	(798)

The **net carrying amount of debt** at 30 June 2020 was 25,954 million euros, 2,292 million euros less than at 31 December 2019 (28,246 million euros).

The fair value measurement of derivatives and related financial liabilities/assets changed by 595 million euros compared to 31 December 2019, following the marked drop in US dollar interest rates and the related

revaluation of hedges on US currency bonds. This change is adjusted in the Financial Accounting Debt and has no monetary effects.

The Adjusted Net Financial Debt - After Lease (net of the impact of all leases), a metric adopted by the main European peers, as of 30 June 2020, was 21,095 million euros, down by 798 million euros compared to 31 December 2019 (21,893 million euros). The reduction is less than that shown in the adjusted net financial debt as the effects of the deconsolidation/new debt for IFRS16 purposes related to the Inwit operation and the effects of the exchange rate on the debt for IFRS16 purposes of Brazil are not considered.

The **liquidity margin** available to the TIM Group was 11,179 million euros, and was calculated taking account of:

- “Cash and cash equivalents” and “Current securities other than investments” totalling 4,479 million euros (4,015 million euros as at 31 December 2019), also including 469 million euros of repurchase agreements falling due in September 2020;
- the Revolving Credit Facility of 5,000 million euros and the Bridge to Bond Facility of 1,700 million euros, totally available.

This margin means that the Group's current and non-current financial liabilities are covered for the next 30 months.

In the second quarter of 2020, the **adjusted net financial debt** amounted to 25,971 million euros, down by 774 million euros on 31 March 2020 (26,745 million euros): the positive effects of operating cash generation and revenues from the sale of 4.3% of the investment in INWIT (400 million euros), plus the extraordinary and ordinary dividend, largely offset the payment of dividends of 316 million euros of TIM S.p.A..

(million euros)	30.6.2020 (a)	31.3.2020 (b)	Changes (a-b)
Net financial debt carrying amount	25,954	26,569	(615)
<i>Reversal of fair value measurement of derivatives and associated financial liabilities/assets</i>	17	176	(159)
Adjusted net financial debt	25,971	26,745	(774)
<i>Detailed as follows:</i>			
Total adjusted gross financial debt	31,544	32,040	(496)
Total adjusted financial assets	(5,573)	(5,295)	(278)

RESULTS OF THE BUSINESS UNITS

DOMESTIC

The **revenues of the Business Unit Domestic** amounted to 6,259 million euros, down by 810 million euros on the first half of 2019 (-11.5%), having suffered from the challenging competitive context and, particularly as regards the Mobile market, the restrictions related to the COVID-19 emergency. **Organic revenues, net of the non-recurring component**, amount to 6,296 million euros (-752 million euros compared to the first half of 2019, -10.7%). Revenues in the first half of 2020 in particular fell by 37 million euros due to revenue adjustments connected to initiatives taken by TIM S.p.A. to support customers in dealing with the COVID-19 emergency. The first half of 2019 was supported by non-recurring revenues of 15 million euros attributable to adjustments to revenues from previous years.

Revenues from stand-alone services amounted to 5,758 million euros (-628 million euros compared to the first half of 2019, equal to -9.8%) and reflect the impacts of the regulatory and competitive context that reduced the customer base and ARPU levels. **Revenues from organic stand-alone services, net of the aforesaid non-recurring components**, amounted to 5,795 million euros (-569 million euros compared to the first half of 2019, -8.9%).

In detail:

- **revenues from stand-alone Fixed market services** amounted to 4.366 million euros, down by 446 million euros in **organic** terms compared to the first half of 2019 (-9.3%). The fall in revenues from voice services connected to the decrease in subscriptions is accompanied by a reduction in ARPU levels resulting from a more rigorous commercial discipline, with a consequent fall in revenues from broadband services (-133 million euros compared to the first half of 2019, -10.3%), partially offset by the growth in revenues from ICT solutions (+28 million euros compared to the first half of 2019, equal to +7.0%);

- **revenues from Mobile market stand-alone services** amounted to 1,680 million euros (-179 million euros compared to the first half of 2019, -9.7%) and suffered the impact of the regulatory and competitive context, with a reduction in the customer base, and the significant effects of the health emergency. In **organic terms, net of the aforesaid non-recurring component**, revenues from Mobile stand-alone services amounted to 1.712 billion euros (-137 million euros compared to the first half of 2019, equal to -7.4%) showing a stable trend in organic ARPU terms to the previous quarter.

Handset and Bundle & Handset revenues, including the changes to work in progress, amounted to 501 million euros in the first half of 2020, down by 183 million euros in organic terms compared to the first half of 2019, also due to reduced footfall in sales outlets following the restrictive measures related to the COVID-19 emergency.

The performance of the individual market segments of the Domestic Business Unit compared to the first half of 2019 was as follows:

- **Consumer:** this includes all the voice and internet services and products managed and developed for individuals and households in the Fixed and Mobile and public telephony business; caring activities, operational credit support, loyalty and retention, related sales activities and the administrative management of customers; TIM Retail is included, which coordinates the business of the Flagship stores. In **organic terms, net of the aforesaid non-recurring component**, the revenues of the Consumer segment totalled 2,915 million euros, having dropped by 430 million euros (-12.9%) compared to the first half of 2019, also due to the changed regulatory and competitive scenario. The same dynamic observed in overall revenues was also seen in revenues from stand-alone services, which amounted to 2,625 million euros, down by 327 million euros on the first half of 2019 (-11.1%). In particular:
 - **revenues from Mobile stand-alone services** totalled 1,166 million euros, having fallen in organic terms by 86 million euros (-6.8%) compared to the first half of 2019 as a result of the cut in incoming interconnection tariffs in addition to ongoing intense competition at the lower end of the market;
 - **Revenues from Fixed stand-alone services** amounted to 1,475 million euros, down on the first half of 2019 (-236 million euros, -13.8%); this trend reflected a decrease in subscriptions and ARPU levels. The number of Broadband customers, particularly Ultra Broadband, is growing.

Handset and Bundle & Handset revenues in the Consumer segment amounted to 289 million euros, down by 104 million euros on the first half of 2019 (-26.4%), concentrated in the mobile segment due to changes in the commercial strategy on products focused on defending the profit margin. The restrictions on circulation due to the COVID-19 health emergency also had an impact on performance: the volume of smartphones sold has fallen drastically since March compared to 2019.

- **Business:** this includes all voice, data, internet services and products and ICT solutions managed and developed for Fixed and Mobile SME (Small and Medium Enterprises), SOHO (Small Office Home Office), Top, Public Sector, Large Account and Enterprise customers. The following companies are included: Olivetti, TI Trust Technologies and Telsy. In **organic terms, net of the aforesaid non-recurring component**, revenues for the Business segment amounted to 2,007 million euros, up by 304 million euros on the first half of 2019 (-13.2%, including a fall of 11.2% in revenues from the stand-alone services component). In particular:
 - total **Mobile market revenues** performed negatively on an organic basis compared to the first half of 2019 (-10.9%), having fallen by 61 million euros, mainly due to lower revenues from stand-alone services (-9.7%) following the reduction in ARPU levels;
 - **Fixed market revenues** fell in organic terms by 245 million euros compared to the first half of 2019 (-13.7%), while revenues from services fell by 11.5%: the fall in prices and revenues from traditional services (also due to the technological shift towards VoIP systems and solutions) was only partly offset by the increase in revenues from ICT services.
- **Wholesale National Market:** this includes the management and development of wholesale services, both regulated and unregulated, for Fixed and Mobile telecommunications operators in the domestic market. The following companies are included: TN Fiber, TI San Marino and Telefonía Mobile Sammarinese. The Wholesale National Market segment presented revenues of 936 million euros in the first half of 2020, an increase of 17 million euros (+1.9%) on the first half of 2019, with a positive performance primarily driven by the growth in accesses in the Ultra BroadBand sector.
- **Wholesale International Market:** this includes the activities of the Telecom Italia Sparkle group, which operates in the international voice, data and internet services market for fixed and mobile telecommunications operators, ISP/ASP (Wholesale market) and multinational companies through proprietary networks in European, Mediterranean and South American markets. Revenues for the first half of 2020 in the International Wholesale Market came to 445 million euros, down by 24 million euros (-5.1%) compared to the first half of 2019, with negligible effects on the EBITDA. This trend is mainly connected to the new positioning of Telecom Italia Sparkle in the voice business, better focused contracts having higher margins, also in a perspective of simplifying and streamlining operating processes.

* * *

The Domestic Business Unit EBITDA for the first half of 2020 totalled 2,684 million euros, 245 million euro less than in the first half of 2019 (-8.4%), with a margin of 42.9%, (+1.5 percentage points compared to the same period of the previous year).

Organic EBITDA, net of the non-recurring component, amounted to 2,821 million euros, down by 295 million euros compared to the first half of 2019 (-9.5%). In particular, the EBITDA in the first half of 2020 fell by 137 million euros, including 69 million euros attributable to the COVID-19 emergency in Italy and relating to the impacts of TIM S.p.A.'s commercial initiatives to support customers, as well as the first effects of macroeconomic difficulties on provisions and charges related to credit management.

Organic EBITDA, net of the non-recurring component, was calculated as follows:

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
EBITDA	2,684	2,929	(245)	(8.4)
Changes in the consolidation scope	-	(91)	91	
Non-recurring charges/(income)	137	278	(141)	
ORGANIC EBITDA excluding non-recurring component	2,821	3,116	(295)	(9.5)

In the first half of 2020, amortization and depreciation from the disposal of non-current assets amounted to 1,850 million euros (1,901 million euros in the first half of 2019).

Domestic Business Unit EBIT for the first half of 2020 totalled 833 million euros, 196 million euro less than in the first half of 2019 (-19.0%), with a margin of 13.3%, (-1.3 percentage points compared to the same period of the previous year).

Organic EBIT, net of the non-recurring component, amounted to 970 million euros, down 273 million euros compared to the first half of 2019 (-22.0%), with a margin of 15.4% (17.6% in the first half of 2019).

Organic EBIT, net of the non-recurring component, was calculated as follows:

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
EBIT	833	1,029	(196)	(19.0)
Changes in the consolidation scope	-	(64)	64	
Non-recurring charges/(income)	137	278	(141)	
ORGANIC EBIT excluding non-recurring component	970	1,243	(273)	(22.0)

The **headcount** stood at 45,473 employees (45,496 as of 31 December 2019), down by 23.

BRAZIL (AVERAGE REAL/EURO EXCHANGE RATE 5.40843)

The TIM Brasil group revenues for the first half of 2020 amounted to 8,202 million reais, down by 252 million reais (-3.0%) compared to the first half of 2019 (8,454 million reais).

Revenues from services totalled 8,017 million reais, a decrease of 71 million reais from the 8,088 million reais recorded for the first half of 2019 (-0.9%).

Revenues from the sale of products came to 185 million reais (366 million reais in the first half of 2019). The fall reflects the impact of closing stores for at least two months in most of Brazil due to the COVID-19 emergency. The sales policy is still focused more on value than on increasing sales volumes. The main objectives of the new strategy are to develop the sale of new handsets that enable the use of broadband services on the 3G/4G networks by TIM customers, and to support the new offers to retain the highest value post-paid customers.

The **mobile ARPU** for the first half of 2020 was 23.6 reais, up from the figure recorded in the first half of 2019 (23.0) thanks to global repositioning in the post-paid segment and new commercial initiatives intended to promote the use of data and average expenditure per customer.

The **total number of lines as of 30 June 2020** was 52.0 million, down by 2.4 million compared to 31 December 2019 (54.4 million). This fall is attributable primarily to the prepaid segment (-2.3 million) and partly to the post-paid segment (-0.1 million), also as a result of the ongoing consolidation in the second SIM card market. Post-paid customers represented 41.0% of the customer base as of 30 June 2020, 1.6 percentage points higher than at December 2019 (39.4%).

EBITDA in the first half of 2020 was 3,883 million reais (6,370 million reais in the first half of 2019) and the margin on revenues was 47.3% (75.3% in the first half of 2019).

It is important to remember that EBITDA in the first half of 2019 benefited from non-recurring net income of 2,650 million reais as the balance of 2,876 million reais of income related to the recognition of tax credits following the favourable outcome of tax disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating the PIS/COFINS contribution and 226 million reais of non-recurring charges for provisions mainly for regulatory disputes and related liabilities, as well as for liabilities with customers and/or suppliers.

Organic EBITDA, net of the non-recurring component increased by 4.4% and was calculated as follows:

(million reais)	1H 2020	1H 2019	Changes	
			absolute	%
EBITDA	3,883	6,370	(2,487)	(39.0)
Non-recurring charges/(income)	-	(2,650)	2,650	
ORGANIC EBITDA - excluding non-recurring component	3,883	3,720	163	4.4

The growth is attributable to the improved efficiency of the operating cost structure during the COVID-19 emergency.

The respective margin on revenues stood at 47.3%, an increase of 3.3 percentage points compared to the first half of 2019 (44.0%).

EBIT for the first half of 2020 was 1,144 million reais (3,747 million reais in the first half of 2019).

The fall is mainly due to the reduction in EBITDA and higher depreciation and amortisation (+112 million reais). In the first half of 2019, the EBIT also benefited from net non-recurring proceeds of 2,650 million reais recorded under EBITDA.

Organic EBIT, net of the non-recurring component increased by 4.3% and was calculated as follows:

(million reais)	1H 2020	1H 2019	Changes	
			absolute	%
EBIT	1,144	3,747	(2,603)	(69.5)
Non-recurring charges/(income)	-	(2,650)	2,650	
ORGANIC EBIT - excluding non-recurring component	1,144	1,097	47	4.3

During the first half of 2020, the exchange rate used to convert Brazilian reais into euros (expressed in terms of local currency units per 1 euro) rose from 4.52808 as of 31 December 2019 to 6.13202 as of 30 June 2020. This led, among other things, to a 223 million euro decrease in the value of goodwill attributed to the Brazil Cash Generating Unit expressed in euros.

The **headcount** was 9,596, down by 93 compared to 31 December 2019 (9,689).

AFTER LEASE INDICATORS

In order to allow a better understanding of the operations and financial position, in addition to the conventional financial indicators envisaged by the IFRS, the TIM Group uses some alternative performance indicators. In particular, following the adoption of IFRS 16, the TIM Group presents the following additional alternative performance indicators:

TIM GROUP EBITDA ADJUSTED AFTER LEASE

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring component	3,535	3,799	(264)	(6.9)
Leasing fees	(431)	(445)	14	(3.3)
EBITDA adjusted After Lease (EBITDA-AL)	3,104	3,354	(250)	(7.4)

EBITDA ADJUSTED AFTER LEASE DOMESTIC

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring component	2,821	3,116	(295)	(9.5)
Leasing fees	(273)	(300)	27	(9.0)
EBITDA adjusted After Lease (EBITDA-AL)	2,548	2,816	(268)	(9.5)

EBITDA ADJUSTED AFTER LEASE BRAZIL

(million euros)	1H 2020	1H 2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring component	718	688	30	4.4
Leasing fees	(158)	(145)	(13)	8.7
EBITDA adjusted After Lease (EBITDA-AL)	560	543	17	3.2

TIM GROUP ADJUSTED NET FINANCIAL DEBT AFTER LEASE

(million euros)	30.6.2020	31.12.2019	Changes
Leasing	(4,876)	(5,775)	899
Adjusted Net Financial Debt - After Lease	21,095	21,893	(798)

EQUITY FREE CASH FLOW AFTER LEASE TIM GROUP

(million euros)	1H 2020	1H 2019	Changes
Leasing	(447)	(319)	(128)
EQUITY FREE CASH FLOW AFTER LEASE	531	757	(226)

OUTLOOK FOR THE 2020 FINANCIAL YEAR

Financial targets of the 2020-2022 plan (IFRS 16/After Lease):

- cumulative Equity Free Cash Flow during the three-year Plan 4.5-5 billion euros, reflecting the deconsolidation of the INWIT results and the new accounting standards (IFRS 16

After Lease) to be increased further through inorganic actions that are currently not included

- Reduction of the Group's debt after lease below 18 billion euros at 2021. 2022 is expected to be stable year-on-year for the payment of the last tranche of the 5G licence
- The Group's Organic service Revenues are expected to be slightly lower (mid-single-digit) in 2020 and slightly higher (low single-digit) in 2021-2022
- The Group's Organic After Lease EBITDA is expected to be slightly lower (mid-single-digit) in 2020 and slightly higher (low to mid-single-digit) in 2021-2022
- Revenues from Domestic services are expected to be lower (mid to high single-digit) in 2020 and stable or slightly higher (stable to low single-digit growth) in 2021-2022
- The domestic Organic After Lease EBITDA is expected to be lower (mid to high single-digit) in 2020 and slightly higher (low to mid-single-digit growth) in 2021-2022
- Domestic Capex expected to be approximately 2.7 billion euros in 2020 and 2.9 billion euros per year in 2021-2022

Guidance takes into account the best estimate to date of the impacts of the COVID-19 pandemic and the consequent macro-economic impacts on the Group.

EVENTS AFTER 30 JUNE 2020

TIM BRASIL PRESENTS A BINDING OFFER WITH TELEFONICA BRASIL AND CLARO TO ACQUIRE OI'S MOBILE BUSINESS

See the press releases on the same subject issued on 18 July 2020 and 28 July 2020.

COMPANY RESTRUCTURING IN BRAZIL

At the meeting held on 29 July 2020, the Board of Directors of Tim Participações and its subsidiary TIM S.A. approved the presentation to the Shareholders' Meeting scheduled for 31 August 2020 of the proposal to incorporate Tim Participações into its subsidiary, TIM S.A., with the latter company being listed on the special Novo Mercado segment of the Brazilian stock exchange and with the American Depositary Receipts ("ADRs") traded on the New York Stock Exchange ("NYSE").

TIM stresses that the result of this merger will have no impact on minority shareholders, given that TIM S.A. will retain the same management structure and best corporate governance practices, and that it will bring significant gains in terms of operational and financial efficiency.

The main purpose of the merger is to make TIM's operational and financial structure more efficient, reducing its corporate structure, thereby optimising the accounting and tax procedures with a consequent reduction in operating expenses.

The Executive responsible for preparing the corporate accounting documents, Giovanni Ronca, hereby declares, pursuant to subsection 2, Art.154 bis of Italy's Consolidated Law on Finance, that the accounting information contained herein corresponds to the company's documentation, accounting books and records.