

ANNUAL FINANCIAL REPORT 2020



This document has been translated into English for the convenience of the readers.

In the event of discrepancy, the Italian language version prevails.

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BOARD OF DIRECTORS

Chairman	Salvatore Rossi (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi
Directors	Alfredo Altavilla (independent) Paola Bonomo (independent) Franck Cadoret Giuseppina Capaldo (independent) Maria Elena Cappello (independent) Massimo Ferrari (independent) ⁽¹⁾ Paola Giannotti de Ponti (independent) Marella Moretti (independent) Lucia Morselli (independent) ⁽²⁾ Dante Roscini (Lead Independent Director) Arnaud Roy de Puyfontaine
Secretary to the Board	Agostino Nuzzolo

BOARD OF STATUTORY AUDITORS

Chairman	Roberto Capone
Standing Auditors	Giulia De Martino Anna Doro Marco Fazzini Francesco Schiavone Panni
Alternate Auditors	Andrea Balelli Antonia Coppola Franco Dalla Sega Laura Fiordelisi

Independent Auditor	EY S.p.A.

(1) Resignation tendered on February 22, 2021

(2) Resignation tendered on February 22, 2021

KEY OPERATING AND FINANCIAL DATA - TIM GROUP

Consolidated operating and financial data (*)

(million euros)	2020	2019	2018	2017	2016
Revenues	15,805	17,974	18,940	19,828	19,025
EBITDA (1)	6,739	8,151	7,403	7,790	8,002
EBIT before goodwill impairment loss	2,104	3,175	3,151	3,291	3,722
Goodwill impairment loss	—	—	(2,590)	—	—
EBIT (1)	2,104	3,175	561	3,291	3,722
Profit (loss) before tax from continuing operations	1,397	1,739	(777)	1,777	2,799
Profit (loss) from continuing operations	7,352	1,226	(1,152)	1,287	1,919
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	16	—	—	47
Profit (loss) for the year	7,352	1,242	(1,152)	1,287	1,966
Profit (loss) for the year attributable to Owners of the Parent	7,224	916	(1,411)	1,121	1,808
Capital Expenditures & spectrum	3,409	3,784	6,408	5,701	4,876

Consolidated financial position data (*)

(million euros)	12.31.2020	12.31.2019	12.31.2018	12.31.2017	12.31.2016
Total Assets	73,234	70,104	65,619	68,783	70,446
Total Equity	28,840	22,626	21,747	23,783	23,553
- attributable to Owners of the Parent	26,215	20,280	19,528	21,557	21,207
- attributable to non-controlling interests	2,625	2,346	2,219	2,226	2,346
Total Liabilities	44,394	47,478	43,872	45,000	46,893
Total Equity and Liabilities	73,234	70,104	65,619	68,783	70,446
Share capital	11,588	11,587	11,587	11,587	11,587
Net financial debt carrying amount (1)	23,714	28,246	25,995	26,091	25,955
Adjusted net financial debt (1)	23,326	27,668	25,270	25,308	25,119
Adjusted net invested capital (2)	52,166	50,294	47,017	49,091	48,672
Debt Ratio (Adjusted net financial debt/Adjusted net invested capital)	44.7 %	55.0 %	53.7 %	51.6 %	51.6 %

Consolidated profit ratios (*)

	2020	2019	2018	2017	2016
EBITDA / Revenues (1)	42.6 %	45.3 %	39.1 %	39.3 %	42.1 %
EBIT / Revenues (ROS) (1)	13.3 %	17.7 %	3.0 %	16.6 %	19.6 %
Adjusted net financial debt/EBITDA (1)	3.5	3.4	3.4	3.2	3.1

(*) As of January 1, 2019, the TIM Group has adopted the new IFRS 16 (Leases) with the modified retrospective method (without the restatement of comparative financial information of previous years). In addition, effective from January 1, 2018, the TIM Group has adopted: The new IFRS 9 (Financial Instruments) retrospectively - making use of the specific exemptions provided for by the same standard and without restating the previous periods under comparison - and the new IFRS 15 (Revenue from contracts with customers) using the modified retrospective method. Consequently, operating and financial data of previous years have not been restated. Further details are provided in the Note "Accounting Policies" to the Consolidated Financial Statements at December 31, 2020 of the TIM Group.

(1) Details are provided under "Alternative Performance Measures".

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

Headcount, number in the Group at year end ⁽¹⁾

(units)	12.31.2020	12.31.2019	12.31.2018	12.31.2017	12.31.2016
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	52,347	55,198	57,901	59,429	61,229
Headcount relating to Discontinued operations/Non-current assets held for sale	—	—	—	—	—

Headcount, average number in the Group⁽¹⁾

(equivalent units)	2020	2019	2018	2017	2016
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	49,099	51,917	54,423	54,946	57,855
Headcount relating to Discontinued operations/Non-current assets held for sale	—	—	—	—	2,581

Financial performance measures

TIM S.p.A.

(euros)	2020	2019	2018
Share prices (December average)			
- Ordinary	0.39	0.56	0.55
- Savings	0.42	0.55	0.47
Dividends per share (2)			
- Ordinary	0.0100	0.0100	—
- Savings	0.0275	0.0275	0.0275
Pay Out Ratio (2) (*)	24 %	35 %	13 %
Market capitalization (in million euros)	8,458	11,762	11,153
Market to Book Value (**)	0.34	0.65	0.61
Dividend Yield (based on December average) (2) (***)			
- Ordinary	2.60 %	1.80 %	—
- Savings	6.49 %	5.04 %	5.86 %

TIM Group

(euros)	2020	2019	2018
Basic earnings per share - ordinary shares	0.34	0.04	(0.07)
Basic earnings per share - savings shares	0.35	0.05	(0.07)
Diluted earnings per share - ordinary shares	0.33	0.04	(0.06)
Diluted earnings per share - savings shares	0.34	0.05	(0.06)

(1) Includes employees with temp work contracts.

(2) For the year 2020, the ratio was calculated on the basis of the proposed resolutions submitted to the Shareholders' Meeting of March 31, 2021. For all periods, the reference index was assumed to be the Parent's Earnings, calculated by excluding non-recurring items (as detailed in the Note "Significant non-recurring events and transactions" in the Separate Financial Statements of TIM S.p.A. at December 31, 2020).

(*) Dividends paid in the following year/Profit for the year.

(**) Capitalization/Equity of TIM S.p.A..

(***) Dividends per share/Share prices.

Highlights of 2020

The fourth quarter of 2020 began to show the results of two years of transformation, by streamlining the organizational structure, optimizing processes and undergoing a major repositioning of the business with the creation of new development opportunities, thanks also to key strategic agreements.

During 2020, TIM further boosted cash generation, both for ordinary and extraordinary operations. Today TIM is a solid company geared towards meeting the various needs of its customers in a sustainable manner and with credible growth prospects, thanks also to the expected improvement in the macroeconomic environment and sector, which is one of the main beneficiaries of the Next Generation EU.

Net financial debt as at December 31, 2020 fell by 4,342 million euros YoY (i.e. 3,299 million euros on an After lease basis), at **23,326 million euros**, (i.e. 18,594 million euros on an After Lease basis). **Equity free cash flow** contributed **2,414 million euros** (1,615 million euros on an After Lease basis).

Additional significant progress was recorded in the implementation of **strategic initiatives**:

- **Development of convergent offer and TIMVISION:** the key partnerships entered into during the year with major global players (Disney+, Netflix, DAZN, NowTV, Discovery+) have transformed TIMVISION into Italy's leading aggregator of entertainment and sports content. This development has further strengthened the positioning and popularity of TIM's convergent offering.
- **Fiber network:** work is continuing to launch the FiberCop operations, which will bring FTTH technology to a large part of Italy by 2025 (76% of property units in grey and black areas – equivalent to 56% of technical property units nationwide). This is an important plan to boost the capacity of the TIM network, which already offers technologies capable of supporting the distribution of multiple streams of high-definition video to over 91% of Italians with an active fixed telephone line, with the remaining population serviced by UBB Fixed Wireless Access and satellite connections. As part of the FiberCop project, the secondary network fiber co-investment offer open to all interested operators was published.
- **Disposal of mobile towers:** Ardian Infrastructure and Canson Partners (Guernsey) Limited invest in INWIT for an equivalent value of 1.6 billion euros, collected by TIM in Q4.
- **Data Centers and partnerships for Cloud services:** announced in January 2021, the birth of Noovle S.p.A., a new company wholly owned by the TIM Group to serve the market as a center of excellence for Cloud and edge computing, with the aim of enhancing TIM's offering with innovative public, private and hybrid cloud services for businesses (from small and medium-sized enterprises to large industries and government bodies), thus boosting Italy's digital transformation. 2020 pro-forma turnover of the Group business Cloud came to 0.5 billion euros.
- In **Brazil**, TIM S.A. won the tender – together with Vivo and Claro – for the purchase of Oi Group's mobile assets. The transaction is expected to be completed in 2021, following the necessary authorizations from the competent authorities. TIM S.A.'s investment will be approximately 7.3 billion reais and 476 million reais relating to TIM S.A.'s share of the data transmission contracts. In terms of asset allocation, TIM S.A. will receive approx. 14.5 million customers, approx. 7.2 thousand mobile access sites and approx. 49 MHz of mobile radio frequencies.

The placement of the first 1 billion euros Sustainability Bond with an 8-year maturity was successfully concluded in January 2021. The bond issue has a yield at maturity of 1.75% and a fixed coupon of 1.625%, below the Group's average cost of debt which, at the end of September 2020, amounted to around 3.4%. The proceeds will be used for initiatives of energy efficiency, transition to renewable energy and circular economy development. Moreover, for the first time in Italy a corporation will invest part of the funds collected into projects with social value, as envisaged in the Sustainability Financing Framework published in December 2020.

Performance in the fourth quarter 2020

The commercial strategy implemented over the last two years led to a stabilization of service revenues in the fixed line segment in Q4, amid a backdrop of significantly improving commercial indicators. The growth in total fixed retail lines for the first time since 2001 and the first signs of rationality in the mobile market were particularly noteworthy.

The total number of **mobile lines** was 30.2 million at the end of the year, up by around 5 thousand lines over the previous quarter, despite the partial lockdown in November and December. Machine-to-machine SIMs are on the rise once again, with 103 thousand new lines. The performance of “human” lines improved, significantly reducing the loss of lines and confirming the ongoing trend of stabilization. “Number portability” (i.e. the flow to other operators, amounting to 35 thousand lines) posted the best result since Q2 2018.

In the **fixed line segment**, the migration of the customer base towards ultrabroadband is accelerating thanks also to the greater availability of lines in white areas, where TIM has opened 18 thousand new cabinets since March 2020, making fiber (FTTx) available to 91% of Italian households with fixed lines.

In Q4 2020, 437 thousand new retail and wholesale ultrabroadband lines were activated (retail +171% YoY), reaching **8.6 million** units – up 24% YoY.

Group **revenues** in the quarter amounted to 4.1 billion euros (-2.1% organic YoY), with an upward trend (+2.9 percentage points) compared to the previous quarter. Group **revenue from services** was 3.7 billion euros, with a trend – compared to the previous year (-1.2%) – that is also up from the third quarter (+5.2%).

In the Business segment, revenue growth associated with innovative services (ICT, Cloud, IT solutions) accelerated (+27.6% YoY), also thanks to the positive contribution of the partnership with Google Cloud.

In **Domestic Wholesale**, service revenues in Q4 2020 are up 12.1% YoY, benefiting from the ongoing migration of customers to ultrabroadband and the acquisition of new contracts over the quarter.

In Brazil, service revenues continued to rise (+1.9% YoY), driven by strong commercial performance with a positive effect on the customer base trend and average user prices. The efficiencies achieved (particularly the containment of credit losses) contributed to an organic EBITDA growth of 2.8% YoY.

The Group's **organic EBITDA** amounted to 1.8 billion euros (-1.5% YoY, +6.4pp QoQ) and that of the Domestic Business Unit came to 1.4 billion euros (-2.5% YoY, +7.2pp QoQ), up from the previous quarter despite the partial lockdown in November and December and the new distribution of expansion contract days (brought forward and used in Q2 2020), while also benefiting from cost containment measures (-7.4% YoY for the addressable base). **Net of these discontinuities**, EBITDA in the quarter would have performed even better than the previous quarter, with a **positive YoY change**.

After Lease EBITDA was 1.6 billion euros (-0.8% YoY, +7.4pp QoQ): 1.3 billion euros for the Domestic Business Unit (-1.7% YoY, +8.0pp QoQ) and 0.3 billion euros for TIM Brasil (+3.0% YoY, +2.5pp QoQ).

At Group level, investments amounted to 1.4 billion euros, in line with the year's targets, despite the acceleration in Brazil and Italy of the coverage plan for white areas in Q4.

The **net result** came to 6.0 billion euros in the fourth quarter and 7.2 billion euros during the year, showing strong growth on 2019 (when they were reported, respectively, as 0.1 and 0.9 billion euros) also in view of the benefits obtained from the tax recognition of the greater values booked in accordance with Decree Law 104/2020 (5.9 billion euros). The net result would, excluding that effect, have been 1.3 billion euros, 431 million higher than 2019.

Financial highlights for the year

(million euros)		2020	2019	% Change	
		(a)	(b)	(a-b)	organic excluding non-recurring
Revenues		15,805	17,974	(12.1)	(6.4)
EBITDA	(1)	6,739	8,151	(17.3)	(5.9)
EBITDA Margin	(1)	42.6 %	45.3 %	(2.7) pp	
Organic EBITDA excluding non-recurring	(1)	7,063	7,505		(5.9)
Organic EBITDA Margin excluding non-recurring	(1)	44.6 %	44.3 %		0.3pp
EBITDA adjusted After Lease	(1)	6,249	6,652		(6.1)
EBIT	(1)	2,104	3,175	(33.7)	(16.6)
EBIT Margin	(1)	13.3 %	17.7 %	(4.4) pp	
Organic EBIT Margin excluding non-recurring	(1)	15.3 %	17.2 %		(1.9) pp
Profit (loss) for the year attributable to Owners of the Parent		7,224	916	-	
Capital expenditures		3,409	3,784	(9.9)	(2.8)
		12.31.2020	12.31.2019	Change Amount	
		(a)	(b)	(a-b)	
Adjusted net financial debt	(1)	23,326	27,668	(4,342)	
Adjusted Net Financial Debt After Lease	(1)	18,594	21,893	(3,299)	

Q4 Financial highlights

(million euros)		Q4 2020	Q4 2019	% Change	
		(a)	(b)	(a-b)	organic excluding non-recurring
Revenues		4,148	4,551	(8.9)	(2.1)
EBITDA	(1)	1,621	1,652	(1.9)	(1.5)
EBITDA Margin	(1)	39.1 %	36.3 %	2,8pp	
Organic EBITDA excluding non-recurring	(1)	1,764	1,790		(1.5)
Organic EBITDA Margin excluding non-recurring	(1)	42.5 %	42.2 %		0.3pp
EBITDA adjusted After Lease	(1)	1,571	1,584		(0.8)
EBIT	(1)	477	463	3.0	(12.9)
EBIT Margin	(1)	11.5 %	10.2 %	1,3pp	
Organic EBIT Margin excluding non-recurring items	(1)	14.9 %	16.8 %		(1.9) pp
Profit (loss) for the period attributable to owners of the Parent		6,046	64	—	
Capital expenditures		1,403	1,508	(7.0)	0.4

(1) Details are provided under "Alternative Performance Measures"

TIM's initiatives to deal with the COVID-19 emergency

 Initiatives for the Digitalization of the Country (March - December 2020) 10,000 new cabinets 5 mln new households gained access to ultrabroadband connectivity 3,250 municipalities involved 37% increased bandwidth achieved on some routes	 Initiatives for the Community (March - June 2020) 1,635 kits (device+sim) to prisons 1,400 kits for 75 hospitals (configured with technology aids for the hearing impaired) € 1 mln allocated by Fondazione TIM in favor of 4 hospitals Freephone number to support citizens and healthcare workers (with Ministry of Health and Civil Protection) Freephone number for charitable donations for Red Cross fund-raising	 Initiatives to support Institutions (March - December 2020) 6,500 digital training accounts created for the Carabinieri Operations Room for the Italian Civil Protection Department with 72 work stations (freephone number activated just 15 hours after lockdown started) Constant monitoring to ensure the continuity of emergency services (112, 113, 115 and 118) National Confindustria support for smart-working for 230 employees	 Initiatives for Schools and Digital Skills (March - December 2020) 2.5 mln and more platform users WeSchool - start-up expedited by TIM in the week 4-10 May 2020 (+300% compared to average pre-covid access) 700,000 citizens in streaming for the Operazione Risorgimento Digitale training and teaching cycles 20 agreements signed with the main universities to ensure distance teaching 200,000 SIMS card supplied to the universities at concessionary rates with an equal number of free LTE/WiFi modems for students
 Initiatives for customers (March - December 2020) 435,000 consumer offers activated during the emergency 165,000 business offers activated during the emergency FREE the "classic" TIMVISION package (for all fixed network customers) FREE for two months, TIM WORK SMART: the collaboration service FREE for three months, G Suite TIM Edition (the smart-working solution by TIM, Google Cloud and Intesa Sanpaolo) Support for Companies thanks to an agreement with UniCredit (for immediate access to liquidity and investment support measures)	 Initiatives for employees (March 2020 - to date) 36,000 employees in Agile Working since the start of the emergency 162,774 ton. less CO₂ equivalent due to stop to mobility through smart-working Training tools Informative videos produced on how to prevent infection and use PPE correctly Expansion pf PC stock for Red Cross fund-raising Insurance cover healthcare in the event of COVID-19 infection Safety at work New procedures for the safety of activities carried out by technicians and shop staff	 Initiatives of Tim Brasil (March 2020 - to date) 10,000 employees working from home across the country 1st operator to convert the entire in-house call center to remote working 500 employees who monitored the network from home thanks to virtual access, while maintaining the quality of service 24/07 assistance to employees and dependent family members through the personal support program and Einstein Conecta health platform 3,000 families with disabled people living in vulnerable areas of Rio de Janeiro helped with food parcels during the emergency Instituto TIM responded quickly to the pandemic by changing the methods used in its projects in order to ensure full operation online in 2020: AWC, Instituto TIM Percussion Band and TIM Tec	

The health emergency caused by the COVID-19 outbreak has underpinned the essential value of connectivity and digital solutions in emergency situations to cope with generalized social distancing, the interruption of the provision of in-person services, a stop to mobility and the interruption of school and education services. Because of social distancing, 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 digitalization of the country, TIM has put in place a series of initiatives to support citizens, businesses and institutions during the lock-down and in the progressive reopening phases, with a wide-ranging plan.

The main initiatives include:

- to accelerate the Italy's digitalization, more than 10,000 new cabinets were switched on in 3,250 different municipalities, allowing more than 5 million residents to access UltraBroadBand connectivity. Moreover, thanks to a series of technical measures, which on some routes have led to increasing bandwidth by up to 37%, it has been possible to meet the strong increase, which during the first lockdown recorded a maximum increase of 90% on the fixed line network and 45% on the mobile network, while keeping service quality unchanged;
- Fondazione TIM **donated 1 million euros** to hospitals and medical research institutions, also promoting fund-raising among TIM employees;
- over 3,000 devices and SIM cards were distributed to hospitals involved in the emergency and prisons to facilitate contact with family members; in collaboration with the National Deaf Association over 1,000 devices were supplied for deaf people and equipped with apps to facilitate the use of LIS (Sign Language) and for the real-time translation of messages from voice to text and vice versa;
- in participating in the "Torino City Love" campaign, TIM provided free of charge **innovative digital solutions** to the public to support health care, 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;
- with the "Operation Risorgimento Digitale" project, **the first large free on-line school for the spread of digital skills in Italy was established**. Operazione Risorgimento Digitale is a great system alliance headed by TIM, which has brought together over 30 different partners and obtained the support of trade associations, the fourth (welfare-driven) economic sector and important players in social innovation, such as Confindustria Digitale, Telefono Azzurro, Fondazione Mondo Digitale, Junior Achievement Italia, Generation and Italicamp. The project, which endorses the Manifesto for the Digital Republic promoted by the Ministry for Innovation, is being implemented in conjunction with the European Commission, Polizia di Stato, Italian Law Enforcement and it has obtained ANCI support. As part of the project important memorandums of understanding have been signed with the Ministries for Public Administration, Education and Justice. To immediately adapt to the needs created by the emergency, the activity was consolidated into awareness-raising and distance teaching cycles used by over 700,000 citizens;
- to ensure **continued education** in schools, TIM signed up to the Italian Ministry of Education's #LaScuolaContinua program and, together with Cisco, Google, IBM and WeSchool, it made platforms and information support available for ensuring distance teaching; more than 20 agreements have also been signed with Italy's main universities for the supply of modems and SIM cards to help students take courses remotely;
- the initiatives for people, families and companies have all been aimed at offering free connectivity and providing services, such as remote-working, throughout the 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 Protection), 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;

- competitions for health care innovation have been promoted through partnerships with public institutions and other private foundations, such as Innova for Italy, #EUvsVirus Hackathon and the COVID-19 Challenge;
- finally, about 36,000 of our employees were involved in the **Remote Working** program, in line with government provisions on the management of working spaces. The benefit in terms of emissions reduction, resulting from the stop to mobility, is equal to over 162K tons of CO₂e.

Non-financial performance

The coronavirus pandemic has exposed problems and weaknesses in our economic, social and institutional systems in dealing with global shocks. At the same time, however, awareness has grown that achieving sustainable development also requires the use of ICT products and services, which are enabling factors for inclusive development. These cannot be separated from digital infrastructure, which are increasingly necessary across the country to guarantee all the advantages and opportunities they offer. In addition to this, it is however necessary to increase training and the necessary digital skills in both the public (schools and Public Administration) and private (families and businesses) sectors to boost the country's recovery. TIM is strongly committed on all these fronts, with a leading role.

The challenge now is to use the Group's infrastructure and skills to contribute to a new phase of our company's digital evolution that requires us to use technology, working with all institutional and private players, to meet the major environmental, social and economic challenges, made even more urgent by the coronavirus pandemic.

The Sustainability Plan, integrated into the three-year Strategic Plan, is the Group's concrete contribution to achieving the objectives of the United Nations 2030 Agenda for Sustainable Development, a commitment confirmed by the inclusion of the stock in the Dow Jones Sustainability Index Europe for the seventeenth consecutive year, and TIM's return to the Dow Jones Sustainability Index World, which joins other specialist indexes in which the stock has been included for several years.

Thanks to the continuous search for energy efficiency and limiting its emissions, also thanks to the increasing contribution of renewable energy, TIM strives to be carbon neutral by 2030, by improving efficiency indicators and developing infrastructure and Data Centers to provide more and more services with lower resource use.

The commitment to carbon neutrality does not only concern internal processes but also the tools that TIM makes available to its customers thanks to the offer of energy monitoring and control solutions and the cloud offer that can optimize the use of servers.

The Sustainability Plan places great emphasis on TIM's people, with a renewed engagement survey, a recruitment and training program to better meet the challenges of the Information and Communications Technology sector, as well as a long-term incentive plan with ESG objectives.

Finally, TIM can contribute to the success of new companies, focusing on the impact on Italy's system and, where possible, on less advantaged areas: through TIM Ventures, the Group aims to participate in the growth of 10-15 companies over 5 years and to strengthen the Group's technological innovation.

The Plan's objectives, where possible with reference to 2020, were all achieved, with the excellent performance of the "Engagement" cluster, which improved by 16 points compared to 2019, exceeding the 14-point growth target expected for the end of 2022.

At the beginning of January 2021, the Group aligned its funding sources with the Strategic Plan which places ESG objectives at the center of its development strategy, very successfully placing TIM's first Sustainability Bond for a billion euros.

The Sustainability Report allows for an in-depth analysis of the achievement of the annual targets and the progress of the multi-year targets into which the Sustainability Plan is grouped, highlighting the contribution to the Sustainable Development objectives.

Introduction

The TIM Group and TIM S.p.A. Consolidated Financial Statements for 2020 and the comparative figures for the previous year have been prepared in compliance with the IFRS issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS").

The accounting policies and consolidation principles adopted are consistent with those applied for the TIM Group Consolidated Financial Statements and the TIM S.p.A. Separate Financial Statements at December 31, 2019, except for the amendments to the accounting standards issued by the IASB and in force as of January 1, 2020.

TIM Group, in addition to the conventional financial performance measures established by the IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; organic change and impact of non-recurring items on revenues, EBITDA and EBIT; EBITDA margin and EBIT margin; and net financial debt carrying amount and adjusted net financial debt; Equity Free Cash Flow. Following the adoption of IFRS 16, the TIM Group also 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.***
- ***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;***
- ***Equity Free Cash Flow After Lease, calculated by excluding, from the Equity Free Cash Flow, the amounts related to lease payments.***

The meaning and content of the alternative performance indicators are provided in the "Alternative performance indicators" chapter; analytical detail of the amounts of the reclassifications introduced and of the methods for determining indicators is also provided.

Lastly, the section called "Business Outlook for the year 2021" contains forward-looking statements in relation to the Group's intentions, beliefs or current expectations regarding financial performance and other aspects of the Group's operations and strategies. Readers of this Annual Financial Report are reminded not to place undue reliance on forward-looking statements; in fact, actual results may differ significantly from forecasts owing to risks and uncertainties depending on numerous factors, the majority of which are beyond the scope of the Group's control. Please refer to the "Main risks and uncertainties" section for more information. It provides a detailed description of the major risks pertaining to the TIM Group business activity which can, even considerably, affect its ability to meet the set goals.

Non-recurring events

In the years 2020 and 2019, the TIM Group recognized **non-recurring net operating expenses** connected to events and transactions that by their nature do not occur on an ongoing basis in the normal course of operations and which have been shown because their amount is significant. Non-recurring charges include, among others, any goodwill impairment changes, provisions for regulatory disputes and potential liabilities related to them, liabilities with customers and/or suppliers, and charges associated with corporate reorganization/restructuring and prior-year adjustments.

In detail:

(million euros)	2020	2019
Non-recurring expenses/(income)		
Revenues		
Revenue adjustments	39	15
Other operating income		
Other operating provisions absorption	(1)	
Brazil Business Unit Tax recovery and Domestic Business Unit operating expenses recovery effect		(706)
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	64	21
Employee benefits expenses		
Charges connected to corporate reorganization/restructuring and other processes	74	282
Other operating expenses		
Sundry expenses and provisions	148	459
Impact on EBITDA	324	71
Sale of Persidera S.p.A. (Domestic BU)		18
Impact on EBIT	324	89

Specifically, non-recurring events for the year 2020 included:

- 39 million euros in adjustments to revenues, of which 38 million in discounts as a result of TIM S.p.A. customer support measures in relation to the COVID-19 pandemic;
- 64 million euros in expenses related to agreements and the development of non-recurring projects, as well as costs for purchases relating to supplies that became necessary for the management of the health emergency;
- 74 million euros in Employee benefits expenses primarily associated with corporate reorganization/restructuring processes and other costs;
- 148 million euros mainly in relation to provisions and expenses connected with the management of credits deriving from the worsening of the macroeconomic context following the COVID-19 emergency, costs for regulatory sanctions, as well as expenses related to agreements and the development of non-recurring projects.

In the year 2019, the TIM Group reported net non-recurring operating charges totaling 89 million euros, representing the balance of:

- non-recurring operating charges for 795 million euros primarily regarding charges associated with corporate restructuring processes (282 million euros), provisions for regulatory disputes and potential related liabilities and liabilities with customers and/or suppliers (459 million euros);
- non-recurring operating income amounting to 706 million euros, including 685 million euros recognized as tax receivables by the Brazilian Business Unit, as a result of the favorable outcome of tax disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating the PIS/COFINS contribution and 21 million euros recognized by the Domestic Business Unit as a receivable for reimbursement of the fine regarding Antitrust proceedings I761.

Main changes in the scope of consolidation of the TIM Group

The main changes to the scope of consolidation in 2020 were as follows:

- *Infrastrutture Wireless Italiane S.p.A. Infrastrutture Wireless Italiane S.p.A. (INWIT) (Domestic Business Unit)*: the merger by incorporation of Vodafone Towers S.r.l. in INWIT S.p.A. was completed on March 31, 2020. The transaction, which enabled the creation of Italy's leading tower operator, diluted the TIM Group's stake in the capital of INWIT from 60% to 37.5%; therefore, as of March 31, 2020, INWIT S.p.A. is accounted for using the equity method. INWIT S.p.A. was presented as "Asset held for sale" from the Consolidated Financial Statements as at December 31, 2019 and until the completion of the aforementioned merger; therefore, TIM Group consolidated economic data and cash flows for FY 2020 include data of INWIT S.p.A. for the first quarter of 2020, net of amortization and depreciation for the period, as required by IFRS 5. In addition, attention is drawn to the following events: in 2020, additional INWIT stock packets were transferred, corresponding to 7.3% of INWIT share capital (for further details, please refer to the Note: "Equity investments" in the TIM Group Consolidated Financial Statements for the year ended December 31, 2020.) Consequently, at December 31, 2020, TIM Group's investment held in INWIT was 30.2%;
- *Noovle S.r.l. (Domestic Business Unit)*: on May 21, 2020, TIM S.p.A. finalized the acquisition of 100% of the quotas in Noovle S.r.l., an Italian ICT consulting and system integration company, specialized in supplying cloud solutions and projects and one of Google Cloud's leading partners on the Italian market. With effect from this date, Noovle S.r.l. and its subsidiaries have been consolidated line-by-line;
- *Daphne 3 S.p.A. (Domestic Business Unit)*: company established on July 24, 2020; the corporate purpose is the acquisition, holding, management and disposal of equity investments in INWIT - Infrastrutture Wireless Italiane S.p.A.
- *TIM My Broker S.r.l. (Domestic Business Unit)*: company established on August 4, 2020; the corporate purpose is primarily insurance intermediation, within the meaning of article 106 of Italian Legislative Decree no. 209 of September 7, 2005, as amended.
- *Noovle S.p.A. (Domestic Business Unit)*: company established on October 9, 2020; the corporate purpose is primarily the planning, design, implementation, commissioning and management of Data Center infrastructure implementation and colocation services;
- *FiberCop S.p.A. (Domestic Business Unit)*: company incorporated on November 2, 2020; the corporate purpose is the design, building, purchase, management, maintenance and sale of infrastructures, networks, cabled access services easement to end customer facilities offered to telecommunications industry operators across Italy;
- *Fiberco Soluções de Infraestrutura Ltda (Brazil Business Unit)*: telecommunications services company established on December 21, 2020.

The following should also be noted:

- *TIM Participações S.A. (Brazil Business Unit)*: merger by incorporation into TIM S.A. became effective as of September 2020;
- *TN Fiber S.r.l. (Domestic Business Unit)*: Merged with TIM S.p.A. on September 30, 2020 with retroactive accounting and tax effects backdated to January 1, 2020.
- *TIM Vision S.r.l. (Domestic Business Unit)*: Merged with TIM S.p.A. on October 1, 2020, with retroactive accounting and tax effects backdated to January 1, 2020.
- *H.R. Services S.r.l. (Domestic Business Unit)*: Merged with TIM S.p.A. on December 31, 2020 with retroactive accounting and tax effects backdated to January 1, 2020.
- *TIMFin S.p.A.*: on November 3, 2020, the Bank of Italy authorized TIMFin, a joint venture between TIM and Santander Consumer Bank to carry out the business of granting loans to the public pursuant to articles 106 et seq. of the CLB (registration in the Register of Financial intermediaries is subject to the fulfillment of certain operational requirements). The company - 49% owned by TIM and 51% by Santander - will offer financing services to TIM customers.

The main changes in the scope of consolidation in the year 2019, were as follows:

- *Persidera S.p.A. (Domestic Business Unit)*: Sold, after the demerger into two distinct entities, on December 2, 2019.

Also:

- *Infrastrutture Wireless Italiane S.p.A. (INWIT) (Domestic Business Unit)*: at December 31, 2019, holding completion of the merger by incorporation of Vodafone Towers S.r.l. into INWIT highly probable within the 2020 financial year, with resulting reduction of the TIM Group's equity investment in INWIT from 60% to 37.5%, the company was stated as "Asset held for sale". Accordingly, the financial assets and liabilities have been reclassified in the "Discontinued operations/Non-current assets held for sale" and "Liabilities directly associated with Discontinued operations/Non-current assets held for sale" items of the Consolidated Statements of Financial Position at December 31, 2019. Consolidated income data and cash flows for the 2019 included INWIT S.p.A. figures for the full period.
- *Noverca S.r.l. (Domestic Business Unit)*: Merged with TIM S.p.A. on November 1, 2019 with retroactive accounting and tax effects backdated to January 1, 2019.

Consolidated operating performance

Revenues

Total **TIM Group revenues** for the year 2020 amounted to **15,805 million euros**, down -12.1% compared to the year 2019 (17,974 million euros); organic change in total revenues was -6.4%.

The breakdown of total revenues for the year 2020 by operating segment in comparison with 2019 is as follows:

(million euros)	2020		2019		Changes		
	% weight		% weight		absolute	%	organic % excluding non-recurring
Domestic	12,905	81.7	14,078	78.3	(1,173)	(8.3)	(7.7)
Brazil	2,933	18.6	3,937	21.9	(1,004)	(25.5)	(0.6)
Other Operations	—	—	—	—	—	—	—
Adjustments and eliminations	(33)	(0.3)	(41)	(0.2)	8	—	—
Consolidated Total	15,805	100.0	17,974	100.0	(2,169)	(12.1)	(6.4)

The organic change in the Group's consolidated revenues for the year 2020 is calculated by excluding the negative effect of exchange rate cha¹ of -990 million euros, the changes in the scope of consolidation² for -64 million euros as well as non-recurring items. The adjustments of non-recurring revenues recorded in 2020 (-39 million euros) are connected to the commercial initiatives of TIM S.p.A. to support customers to deal with the COVID-19 emergency, while 2019 was affected by non-recurring charges of 15 million euros relating to adjustments to revenues from previous years.

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 (May 21, 2020). If the acquisition of Noovle S.r.l. had been completed on January 1, 2020, the TIM Group would have posted higher revenues for approximately 14 million euros with insignificant effects on the profit (loss) for the year.

Total revenues for the fourth quarter of 2020 amounted to 4,148 million euros, with an organic change compared to the fourth quarter 2019 of -90 million euros (-2.1%).

EBITDA

TIM Group EBITDA for the year 2020 came to **6,739 million euros** (8,151 million euros in the year 2019, -17.3%; - 5.9% in organic terms).

The breakdown of EBITDA and the EBITDA margin broken down by operating segment for 2020 compared with 2019, are as follows:

(million euros)	2020		2019		Changes		
	% weight		% weight		absolute	%	organic % excluding non-recurring
Domestic	5,339	79.2	5,708	70.0	(369)	(6.5)	(7.9)
% of Revenues	41.4		40.5			0.9 pp	(0.1)pp
Brazil	1,407	20.9	2,451	30.1	(1,044)	(42.6)	3.1
% of Revenues	48.0		62.3			(14.3)pp	1.7 pp
Other Operations	(9)	(0.1)	(9)	(0.1)	—	—	—
Adjustments and eliminations	2		1		1	—	—
Consolidated Total	6,739	100.0	8,151	100.0	(1,412)	(17.3)	(5.9)

¹The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 5.88806 in 2020 and 4.41422 in 2019 for the Brazilian real. For the US dollar, the average exchange rates used were 1.14179 in 2020 and 1.11954 in 2019. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.

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

Organic EBITDA - net of the non-recurring items amounted to **7,063 million euros**; the EBITDA margin was 44.6% (7,505 million euros in 2019, with an EBITDA margin of 44.3%).

EBITDA for 2020 reflected a total negative impact of 324 million euros referring to net non-recurring expenses, of which 108 related to the COVID-19 emergency in Italy.

For further details, in addition to that reported in the “Non-recurring events” chapter of this report on operations, see the Note “Non-recurring events and transactions” in the Consolidated Financial Statements as at December 31, 2020 of the TIM Group.

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

(million euros)	2020	2019	Changes	
			absolute	%
EBITDA	6,739	8,151	(1,412)	(17.3)
Foreign currency financial statements translation effect		(614)	614	
Changes in the scope of consolidation		(254)	254	
Non-recurring expenses (income)	324	66	258	
Effect of the conversion of foreign currency non-recurring Charges/(Income)		156	(156)	
ORGANIC EBITDA, excluding Non-recurring items	7,063	7,505	(442)	(5.9)
% of Revenues	44.6	44.3		0.3 pp

The EBITDA of the fourth quarter of 2020 totaled 1,621 million euros (1,652 million euros in the fourth quarter of 2019).

Organic EBITDA net of the non-recurring component in the fourth quarter of 2020 totaled 1,764 million euros (1,790 million euros in the fourth quarter of 2019).

EBITDA was particularly impacted by the change in the line items analyzed below:

■ **Acquisition of goods and services (6,173 million euros; 6,463 million euros in 2019):**

(million euros)	2020	2019	Changes
Acquisition of goods	1,203	1,396	(193)
Revenues due to other TLC operators and costs for telecommunications network access services	1,314	1,324	(10)
Commercial and advertising costs	1,192	1,351	(159)
Professional and consulting services	216	220	(4)
Power, maintenance and outsourced services	1,060	1,119	(59)
Lease and rental costs	436	428	8
Other	752	625	127
Total acquisition of goods and services	6,173	6,463	(290)
% of Revenues	39.1	36.0	3.1 pp

The decrease is mainly attributable to the Brazil Business Unit for 380 million euros (of which approximately 363 million euros due to the impact of exchange rate dynamics).

■ **Employee benefits expenses (2,639 million euros; 3,077 million euros in 2019):**

(million euros)	2020	2019	Changes
Employee benefits expenses - Italy	2,377	2,730	(353)
Ordinary employee expenses and costs	2,303	2,463	(160)
Restructuring and other expenses	74	267	(193)
Employee benefits expenses - Outside Italy	262	347	(85)
Ordinary employee expenses and costs	262	332	(70)
Restructuring and other expenses	—	15	(15)
Total employee benefits expenses	2,639	3,077	(438)
% of Revenues	16.7	17.1	(0.4) pp

The net decrease of 438 million euros was mainly driven by:

- a decrease of 160 million euros of ordinary Employee benefits expenses in the Italian component, essentially due to the benefits deriving from a reduction in the average salaried workforce amounting to a total of -2,490 average employees;
- a decrease of 193 million euros of “restructuring and other expenses” in the Italian component. In 2020, charges were set aside amounting to 74 million euros mainly related to the effective exits of the Parent Company in the year 2020 (also through the application of art. 4 of Italian Law no. 92 of June 28, 2012, as defined in the Trade Union Agreement of February 26, 2019 and the Trade Union Agreement signed June 4, 2020) and to the provision made for exits based on the application of art. 4 of Italian Law no. 92 of June 28, 2012 following the agreements signed with trade unions on April 22, 2020 by Olivetti and Telecom Italia Trust Technologies, and on April 17, 2020 by Telecontact. In 2019, provisions were recorded for expenses totaling 267 million euros following the updated provisions related to the application of art. 4 of Italian Law no. 92 of June 28, 2012, for both the Parent Company and the other subsidiary companies.
- for 85 million euros, the decrease in the foreign component mainly related to the impact of the exchange rate change and lower non-recurring charges of the Brazil Business Unit.

■ **Other operating income (211 million euros; 933 million euros in 2019):**

(million euros)	2020	2019	Changes
Late payment fees charged for telephone services	46	59	(13)
Recovery of employee benefits expenses, purchases and services rendered	14	50	(36)
Capital and operating grants	34	33	1
Damages, penalties and recoveries connected with litigation	24	20	4
Estimate revisions and other adjustments	59	36	23
Brazil Business Unit's income tax	—	685	(685)
Other income	34	50	(16)
Total	211	933	(722)

The decrease is mainly attributable to the Brazil Business Unit; in fact, other operating income in the year 2019 benefited from 685 million euros from the Brazil Business Unit (classified as non-recurring), connected with the recognition of tax credits consequent to the favorable result of the tax disputes connected to the inclusion of the ICMS indirect tax in the basis of calculation of the taxes on PIS and COFINS revenues.

■ **Other operating expenses (961 million euros; 1,625 million euros in 2019):**

(million euros)	2020	2019	Changes
Write-downs and expenses in connection with credit management	423	577	(154)
Provision charges	43	497	(454)
TLC operating fees and charges	199	268	(69)
Indirect duties and taxes	96	124	(28)
Penalties, settlement compensation and administrative fines	120	58	62
Subscription dues and fees, donations, scholarships and traineeships	12	12	—
Sundry expenses	68	89	(21)
Total	961	1,625	(664)

The decrease is mainly attributable to the Domestic Business Unit (-460 million euros) and to the Brazil Business Unit (-205 million euros, of which approximately -130 million euros linked to exchange rate dynamics).

Other operating expenses for the year 2020 include a non-recurring item of 148 million euros, mainly referring to provisions and expenses connected with credit management in connection with the COVID-19 emergency (46 million euros), charges for regulatory sanctions and expenses related to agreements and the development of non-recurring projects. In particular, in relation to credit management, it is noted that the macroeconomic scenario with a sharp reduction in GDP caused by the pandemic worsened the Expected Credit Loss of some of the customers. Consequently, the provision for bad debt was adjusted according to the expected loss differential. With reference to the impairment and expenses connected with credit management, we note that the reduction is the consequence of a program to optimize processes aimed at increasing the efficiency of credit management, all round, intervening on the whole process involving the customer. More specifically, reference is made to the acceptance, management and collection of debt through to the assessment model of the new commercial offers.

The non-recurring component of 2019, amounting to 459 million euros, mainly referred to regulatory disputes and related liabilities and to liabilities with customers and/or suppliers.

Depreciation and amortization

Amounts to 4,616 million euros (4,927 million euros in 2019) and breaks down as follows:

(million euros)	2020	2019	Changes
Amortization of intangible assets with a finite useful life	1,627	1,675	(48)
Depreciation of tangible assets	2,301	2,469	(168)
Amortization of right-of-use assets	688	783	(95)
Total	4,616	4,927	(311)

Net impairment losses on non-current assets

In 2020, the item shows losses of 8 million euros (zero in 2019), mainly following the provisions made by the Parent Company TIM S.p.A for inventory differences for plant warehouse materials held at external company sites.

In preparing the Annual Report for 2020, the TIM Group carried out an impairment test on goodwill. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amounts of Goodwill allocated to the Group's individual Cash Generating Units.

Further details are provided in the Note "Goodwill" to the Consolidated Financial Statements at December 31, 2020 of the TIM Group.

EBIT

TIM Group EBIT for FY 2020 came to **2,104 million euros** (3,175 million euros in FY 2019).

Organic EBIT, net of the non-recurring component, amounted to 2,428 million euros (2,913 million euros in 2019), with an EBIT margin of 15.3% (17.2% in 2019).

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

(million euros)	2020	2019	Changes	
			absolute	%
EBIT	2,104	3,175	(1,071)	(33.7)
Foreign currency financial statements translation effect		(324)	324	
Changes in the scope of consolidation		(178)	178	
Non-recurring expenses (income)	324	84	240	
Effect of the conversion of foreign currency non-recurring Charges/(Income)		156	(156)	
ORGANIC EBIT, excluding Non-recurring items	2,428	2,913	(485)	(16.6)

The EBIT of the fourth quarter of 2020 totaled 477 million euros (463 million euros in the fourth quarter of 2019).

Organic EBIT net of the non-recurring component in the fourth quarter of 2020 totaled 620 million euros (712 million euros in the fourth quarter of 2019).

Exchange rate fluctuations mainly related to the Brazil Business Unit.

Other income (expenses) from investments

Other income (expenses) from investments amounted to 454 million euros and refer to:

- 441 million euros of net capital gain recognized following the dilution of the TIM Group investment in INWIT S.p.A. capital from 60% to 37.5%, following the merger of INWIT with Vodafone Towers;
- 11 million euros of capital gains deriving from the sale, during the year, of shares for a total of 7.3% of the share capital of INWIT, through an accelerated book-building procedure reserved to institutional investors and sales to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited;
- 2 million euros relating to income distributed by the Northgate CommsTech Innovations Partners L.P. fund.

Balance of finance income/(expenses)

Financial income (expenses), net was negative and amounted to 1,179 million euros (negative 1,436 million euros in the year 2019): the improvement was mainly driven by lower finance expenses, connected to the reduction in the Group's average debt exposure and a drop in interest rates, as well as the positive effects of the change of some non-monetary items, of a currency and accounting nature, relating to the measurement of derivative instruments at fair value.

Income tax expense

Lower tax income of 5,955 million euros were recorded in 2020 (taxes of 513 million euros in the year 2019).

Tax proceeds mainly relate to the recording of deferred tax assets as a consequence of the tax recognition of higher amounts booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis (5,877 million euros) for more details see the note on "Income tax (current and deferred)" of the TIM Group Consolidated financial statements as at December 31, 2020. The item also benefited from the positive tax effect due to the lower taxes paid in previous years and generated following the ruling signed on August 3, 2020 with the Italian Revenues Agency for application of the "patent box" facilitation in income tax and IRAP (regional production tax) tax returns for TIM S.p.A. for the years 2015 - 2019 (299 million euros).

In 2019, "income tax expenses" included, amongst others, 233 million euros of tax expense related to the recognition of deferred taxation relating to non-recurring operating income of the Brazil Business Unit.

Profit/(Loss) for the year

This item breaks down as follows:

(million euros)	2020	2019
Profit (loss) for the year	7,352	1,242
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	7,224	900
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	16
Profit (loss) for the year attributable to Owners of the Parent	7,224	916
Non-controlling interest:		
Profit (loss) from continuing operations	128	326
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	—
Profit (loss) for the year attributable to Non-controlling interest	128	326

Net profits for 2020 attributable to the Owners of the Parent totaled 7,224 million euros (916 million euros in 2019).

FINANCIAL AND OPERATING HIGHLIGHTS OF THE BUSINESS UNITS OF THE TIM GROUP

Domestic

(million euros)	2020	2019	Changes (a-b)		
	(a)	(b)	absolute	%	% organic excluding non-recurring
Revenues	12,905	14,078	(1,173)	(8.3)	(7.7)
EBITDA	5,339	5,708	(369)	(6.5)	(7.9)
% of Revenues	41.4	40.5		0.9 pp	(0.1) pp
EBIT	1,635	1,887	(252)	(13.4)	(19.2)
% of Revenues	12.7	13.4		(0.7) pp	(2.1) pp
Headcount at year end (number) (*)	42,925	45,496	(2,571)	(5.7)	

(*) Includes agency contract workers: 9 units at December 31, 2020 (5 units at December 31, 2019)

(million euros)	Q4 2020	Q4 2019	Changes (n-h)		
	(a)	(b)	absolute	%	organic % excluding non-recurring
Revenues	3,433	3,555	(122)	(3.4)	(3.0)
EBITDA	1,258	1,154	104	9.0	(2.5)
% of Revenues	36.6	32.5		4.1 pp	0.3pp
EBIT	323	193	130	67.4	(9.8)
% of Revenues	9.4	5.4		4.0pp	(1.0)pp

Fixed

	12.31.2020	12.31.2019	12.31.2018
Total TIM Retail accesses (thousands)	8,767	9,166	10,197
of which NGN ⁽¹⁾	4,407	3,670	3,214
Total TIM Wholesale accesses (thousands)	7,974	8,051	8,063
of which NGN	4,220	3,309	2,262
Active Broadband accesses of TIM Retail (thousands)	7,635	7,592	7,483
Consumer ARPU (€/month) ⁽²⁾	33.0	34.9	34.0
Broadband ARPU (€/month) ⁽³⁾	25.4	27.7	26.3

(1) UltraBroadband access in FTTx and FWA mode, also including “data only” lines; continuing with the methodology adopted in 2019, the “data only” lines were also included in the total retail access for 2018.

(2) Revenues from organic Consumer retail services in proportion to the average Consumer accesses.

(3) Revenues from organic broadband services in proportion to the average active TIM retail broadband accesses.

Mobile

	12.31.2020	12.31.2019	12.31.2018
Lines at year-end (thousands)	30,170	30,895	31,818
of which Human	19,795	21,003	22,448
Churn rate (%) ⁽⁴⁾	18.6	20.4	26.3
Broadband users (thousands) ⁽⁵⁾	12,818	12,823	13,015
Retail ARPU (€/month) ⁽⁶⁾	8.0	8.7	9.8
Human ARPU (€/month) ⁽⁷⁾	12.1	12.6	13.4

(4) Percentage of total lines that ceased in the period compared to the average number of total lines.

(5) Mobile lines using data services

(6) Revenues from organic retail services (visitors and MVNO not included) in proportion to the average total lines.

(7) Revenues from organic retail services (visitors and MVNO not included) in proportion to the average human lines.

Revenues

The revenues of the Domestic Business Unit amounted to 12,905 million euros, down by 1,173 million euros compared to 2019 (-8.3%), having suffered from the challenging competition and, particularly as regards the Mobile market, the restrictions related to the COVID-19 emergency. Organic revenues, net of the non-recurring component, amounted to 12,944 million euros (-1,081 million euros compared to 2019, -7.7%); in particular, revenues for 2020 were affected by an overall impact of -39 million euros mainly referring to adjustments of revenues connected to TIM S.p.A.'s commercial initiatives to support customers in facing the COVID-19 emergency. In 2019, non-recurring charges for 15 million euros were recorded, attributable to revenue adjustments of previous years.

Domestic Business Unit revenues in the fourth quarter of 2020 amounted to 3,433 million euros, down by 122 million euros compared to the same period of 2019 (-3.4%, -3.0% in organic terms).

Revenues from stand-alone services amounted to 11,605 million euros (-980 million euros compared to 2019, -7.8%) and reflect the impacts of the regulatory and competitive context on the customer base and ARPU levels. Revenues from organic stand-alone services, net of the aforesaid non-recurring components, amounted to 11,643 million euros (-883 million euros compared to 2019, -7.0%).

In detail:

- **revenues from stand-alone Fixed market services** amounted to 8,785 million euros in organic terms, with a change with respect to 2019 (-6.1%) mainly due to the decrease in accesses and ARPU levels, which is also reflected in the trend of revenues from broadband services (-170 million euros compared to 2019, -6.9%), partly offset by the growth in revenues from ICT solutions (+134 million euros compared to 2019, amounting to +15.6%);
- **revenues from mobile market stand-alone services** amounted to 3,378 million euros (-397 million euros compared to 2019, -10.5%) and were affected by the negative impact, on the customer base, of the changed competitive dynamics as well as the effects related to the regulatory environment and those resulting from the limitations imposed on health emergencies. In organic terms, **net of the aforesaid non-recurring component**, revenues from Mobile stand-alone services amounted to 3,411 million euros (-330 million euros compared to 2019, equal to -8.8%).

Handset **and Bundle & Handset revenues**, including the changes to work in progress, amounted to 1,301 million euros in 2020, -198 million euros in organic terms compared to 2019, also due to reduced footfall in sales outlets following the restrictive measures related to the COVID-19 emergency.

Key results for 2020 for the Domestic Business Unit are presented in the following table, broken down by market/business segment and compared to 2019.

(million euros)	Q4 2020	Q4 2019	2020	2019	% Change			
	(a)	(b)	(c)	(d)	(a/b)	(c/d)	organic excluding non- recurring	organic excluding non- recurring
Revenues	3,433	3,555	12,905	14,078	(3.4)	(8.3)	(3.0)	(7.7)
Consumer	1,525	1,625	5,899	6,594	(6.2)	(10.5)	(6.2)	(10.4)
Business	1,104	1,195	4,084	4,624	(7.6)	(11.7)	(7.6)	(11.1)
National Wholesale Market	513	456	1,917	1,843	12.5	4.0	12.5	4.0
International Wholesale Market	262	250	966	947	4.8	2.0	6.5	2.4
Other	29	29	39	70	—	(44.3)	50.0	90.5

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

- **Consumer:** the segment consists of all Fixed and Mobile voice and Internet services and products managed and developed for individuals and families and of public telephony; customer care, operating credit support, loyalty and retention activities, sales within its remit, and administrative management of customers; includes the company TIM Retail, which coordinates the activities of flagship stores. In organic terms, **net of the aforesaid non-recurring component**, the revenues of the Consumer segment totaled 5,908 million euros

and show a trend (-686 million euros, -10.4%), compared to 2019, affected by the challenging competition and greater discipline in commercial processes. The trend seen in total revenues also applied to revenues from stand-alone services, which amounted to 5,181 million euros, down by 619 million euros compared to 2019 (-10.7%). In particular:

- revenues **from Mobile stand-alone services** totaled, in organic terms, 2,343 million euros (-226 million euros, -8.8%) compared to 2019; against the backdrop of an unprecedented competitive dynamic at the lower end of the market, there was a more contained reduction in the calling customer base in the fourth quarter. These results also take into account the effects of the COVID-19 emergency on roaming revenues and the gradual reduction of regulated interconnection tariffs on incoming traffic;
- revenues **from Fixed stand-alone services** totaled, in organic terms, 2,871 million euros (-382 million euros, -11.7% compared to 2019), primarily due to lower ARPU levels and the smaller Customer Base, which declined gradually over the course of 2020. The number of broadband customers, particularly UltraBroadBand, grew, and an improvement was achieved in the 2020 performance compared to 2019 of broadband ARPU starting from the third quarter.

Revenues for Handsets and Bundles & Handsets in the Consumer segment amounted to 727 million euros, -67 million euros compared to 2019 (-8.4%), concentrated on the mobile sector following the change in the product sales strategy, focused on protecting margins. The restrictions on circulation due to the COVID-19 health emergency also had an impact on performance: during the lockdown, the volume of smartphones sold fell compared to 2019 and only recovered to normal levels in July.

- **Business:** the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets. The following companies are included: Olivetti, TI Trust Technologies and Telsy and, starting June 2020, the Noovle Group. In organic terms, net of the aforesaid **non-recurring component**, revenues for the Business segment amounted to 4,113 million euros (-512 million euros compared to 2019, -11.1%, of which -8.1% for revenues from the stand-alone services component). In particular:
 - **total Mobile market revenues** showed an organic performance compared to 2019 (-11.8%), linked to the revenues from stand-alone services component (-11.8%) and the ARPU trend;
 - **total Fixed market revenues** in organic terms changed by -386 million euros compared to 2019 (-10.7%), with the revenues from services component (-6.8%) influenced by a price trend partly offset by higher revenues from ICT services.
- **National Wholesale Market:** the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed-line and Mobile telecommunications operators in the domestic market. The following companies are included: TI San Marino and Telefonía Mobile Sammarinese. The National Wholesale Market segment revenues in 2020 came to 1,917 million euros, up by 74 million euros (+4.0%) compared to 2019, with a positive performance mainly driven by the growth in accesses in the Ultra Broadband segment.
- **International Wholesale Market:** includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets. Revenues for the International Wholesale Market segment for 2020 totaled 966 million euros, showing growth of 19 million euros (+2.0%) on the 2019 figure, with negligible effects on EBITDA. This performance is mainly related to the data business capacity offer.
- **Other:** includes:
 - **INWIT S.p.A.:** operates in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators. In 2020, the TIM Group's equity investment in INWIT recorded various changes due to the multiple transactions involving the corporate structure, starting with the merger by incorporation of Vodafone Towers S.r.l. into INWIT S.p.A. Further details are provided in the Note on "Equity investments" in the Consolidated Financial Statements of the TIM Group at December 31, 2020. INWIT S.p.A. was presented as "Asset held for sale" from the Consolidated Financial Statements as at December 31, 2019 and until the completion of the aforementioned merger.
 - **Other Operations units:** covering technological innovation and development, engineering, construction and operating processes for network infrastructures, IT, real estate properties and plant engineering; the Flash Fiber company and Open Access operations connected with delivery and assurance of customer services are also included, until September 2019 included in the Wholesale segment and then reclassified following the change in organizational structure;

- **Staff & Other:** services performed by the Staff departments and other support activities carried out by minor companies, including the company Persidera, sold on December 2, 2019 and included in the financial data and cash flows for the first months of 2019.

EBITDA

Domestic Business Unit EBITDA for 2020 totaled 5,339 million euros (-369 million euros compared to 2019, -6.5%), with a margin of 41.4% (+0.9 percentage points compared to the previous year).

Organic EBITDA, net of the non-recurring component, amounted to 5,658 million euros (-486 million euros compared to 2019, -7.9%). In particular, the EBITDA in 2020 fell by -319 million euros, including -108 million euros attributable to the COVID-19 emergency in Italy and mainly relating to the impacts of TIM S.p.A.'s commercial initiatives to support customers, as well as the effects of macroeconomic difficulties on provisions and charges related to credit management. Moreover, non-recurring expenses include charges connected with corporate reorganization/restructuring processes, provisions for disputes, regulatory sanctions and potential liabilities and expenses connected with agreements and the development of non-recurring projects.

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

(million euros)	2020	2019	Changes	
			absolute	%
EBITDA	5,339	5,708	(369)	(6.5)
Foreign currency financial statements translation effect	—	(1)	1	
Changes in the scope of consolidation	—	(254)	254	
Non-recurring expenses (Income)	319	691	(372)	
ORGANIC EBITDA, excluding Non-recurring items	5,658	6,144	(486)	(7.9)

EBITDA in Q4 2020 was 1,258 million euros, (+104 million euros compared with 2019, 9.0%).

Regarding the dynamics for the main items, the following are worthy of note:

(million euros)	2020	2019	Changes
Acquisition of goods and services	5,129	5,042	87
Employee benefits expenses	2,401	2,753	(352)
Other operating expenses	639	1,099	(460)

In particular:

- **Other operating income** amounted to 200 million euros with a decrease of 25 million euros compared to 2019:

(million euros)	2020	2019	Changes
Late payment fees charged for telephone services	40	48	(8)
Recovery of employee benefits expenses, purchases and services rendered	14	50	(36)
Capital and operating grants	32	29	3
Damages, penalties and recoveries connected with litigation	24	20	4
Estimate revisions and other adjustments	59	36	23
Other proceeds	31	42	(11)
Total	200	225	(25)

- **Acquisition of goods and services** amounted to 5,129 million euros with an increase of 87 million euros compared to 2019:

(million euros)	2020	2019	Changes
Acquisition of goods	1,063	1,175	(112)
Revenues due to other TLC operators and interconnection costs	1,191	1,193	(2)
Commercial and advertising costs	868	878	(10)
Professional and consulting services	128	114	14
Power, maintenance and outsourced services	889	884	5
Costs for leased assets	301	263	38
Other	689	535	154
Total Acquisition of goods and services	5,129	5,042	87
<i>% of Revenues</i>	<i>39.7</i>	<i>35.8</i>	<i>3.9</i>

The increase of 87 million euros reflects the effect of the deconsolidation of the company INWIT as of March 31, 2020 and the consequent start of the new Master Service Agreement (MSA) with that company. Excluding these impacts, the item Acquisition of goods and services would show a reduction of 126 million euros, above all in purchases for resale, due to the decrease in volumes sold of mobile terminals, in line with the ongoing repositioning of commercial strategies. The reduction was also affected by restrictions related to the COVID-19 emergency, especially in the mobile area.

- **Employee benefits expenses** amounted to 2,401 million euros with a decrease of 352 million euros compared to 2019:
- **Other operating expenses** amounted to 639 million euros with a decrease of 460 million euros compared to 2019:

(million euros)	2020	2019	Changes
Write-downs and expenses in connection with credit management	329	407	(78)
Provision charges	6	418	(412)
TLC operating fees and charges	44	49	(5)
Indirect duties and taxes	79	89	(10)
Penalties, settlement compensation and administrative fines	120	58	62
Subscription dues and fees, donations, scholarships and traineeships	11	11	—
Sundry expenses	50	67	(17)
Total	639	1,099	(460)

Other operating expenses for the year 2020 include a non-recurring item of 148 million euros, mainly referring to provisions and expenses connected with credit management in connection with the COVID-19 emergency (46 million euros), charges for regulatory sanctions and expenses related to agreements and the development of non-recurring projects. In particular, in relation to credit management, it is noted that the macroeconomic scenario with a sharp reduction in GDP caused by the pandemic worsened the Expected Credit Loss of some of the customers. Consequently, the provision for bad debt was adjusted according to the expected loss differential. With reference to the impairment and expenses connected with credit management, we note that the reduction is the consequence of a program to optimize processes aimed at increasing the efficiency of credit management, all round, intervening on the whole process involving the customer. More specifically, reference is made to the acceptance, management and collection of debt through to the assessment model of the new commercial offers.

The non-recurring component of 2019, amounting to 416 million euros, mainly referred to regulatory disputes and related liabilities and to liabilities with customers and/or suppliers.

EBIT

Domestic Business Unit EBIT for 2020 totaled 1,635 million euros (-252 million euros compared to 2019, -13.4%), with a margin of 12.7% (-0.7 percentage points compared to the previous year).

Organic EBIT, net of the non-recurring component, amounted to 1,954 million euros (-464 million euros less than 2019, -19.2%), with a margin of 15.1% (17.2% in 2019).

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

(million euros)	2020	2019	Changes	
			absolute	%
EBIT	1,635	1,887	(252)	(13.4)
Changes in the scope of consolidation	—	(178)	178	—
Non-recurring expenses (Income)	319	709	(390)	—
ORGANIC EBIT, excluding Non-recurring items	1,954	2,418	(464)	(19.2)

EBIT in Q4 2020 was 323 million euros, (+130 million euros compared with 2019, +67.4%).

Brazil

	(million euros)		(millions of reais)		Changes		
	2020	2019	2020	2019	absolute	%	organic % excluding non- recurring
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	
Revenues	2,933	3,937	17,268	17,377	(109)	(0.6)	(0.6)
EBITDA	1,407	2,451	8,282	10,820	(2,538)	(23.5)	3.1
% of Revenues	48.0	62.3	48.0	62.3		(14.3) pp	1.7pp
EBIT	476	1,297	2,801	5,726	(2,925)	(51.1)	(4.7)
% of Revenues	16.2	33.0	16.2	33.0		(16.8) pp	(0.7) pp
Headcount at year end (number)			9,409	9,689	(280)	(2.9)	

The average exchange rates used for the translation into euro (expressed in terms of units of real per 1 euro) were 5.88806 for 2020 and 4.41422 for 2019

	(million euros)		(millions of reais)		Changes		
	Q4 2020	Q4 2019	Q4 2020	Q4 2019	absolute	%	organic % excluding non- recurring
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	
Revenues	725	1,007	4,678	4,586	92	2.0	2.0
EBITDA	364	499	2,336	2,298	38	1.7	2.8
% of Revenues	49.9	50.1	49.9	50.1		(0.2)pp	0.4pp
EBIT	156	272	974	1,250	(276)	(22.1)	(19.9)
% of Revenues	20.8	27.3	20.8	27.3		(6.5) pp	(5.9) pp

	2020	2019
Lines at period end (thousands) (*)	51,433	54,447
MOU (minutes/month) (**)	122.7	123.6
ARPU (reais)	24.9	23.7

(*) Includes corporate lines.

(**) Net of visitors.

The **Brazil Business Unit (TIM Brasil group)** provides mobile telephony services using UMTS, GSM and LTE technologies. Moreover, the Tim Brasil Group offers fiber optic data transmission using full IP technology, such as DWDM and MPLS and residential broadband services.

On December 15, 2020, TIM announced that the offer presented by TIM S.A. (the operating company of the TIM Brasil Group) together with Telefônica Brasil S.A. (VIVO) and Claro S.A., had been awarded the contract in the competitive sale process for the purchase of the Oi Group's mobile business. The completion of the transaction, expected in 2021, is in any case subject to the fulfilment of the same conditions precedent provided for in the agreements and the authorizations of the competent Authorities.

The total value of the transaction amounts to 16.5 billion reais (approximately 2.7 billion euros) which is summed with the consideration offered to the Oi Group, of approximately 819 million reais (about 134 million euros), as net present value (NPV) for the Take-or-Pay Data Transmission Capacity Contracts. TIM Brasil will participate in the transaction with an investment of approximately 7.3 billion reais (approximately 1.2 billion euros), to be paid

at closing, and 476 million reais relating to TIM Brasil's share of the net present value (NPV) of the contracts. Given the low debt and the favorable market conditions, TIM S.A. believes it can finance the acquisition through cash and the local debt market. However, in the event of any changes in market conditions, TIM S.A. will evaluate all available options.

The purchase plan provides for TIM Brasil, Telefônica Brasil and Claro to divide up Oi's mobile assets and, in particular, its customers, radio frequencies and mobile access infrastructure.

In particular, TIM Brasil will be allocated:

- approximately 14.5 million customers (corresponding to 40% of UPI Ativos Móveis' total customer base), according to Anatel's data of April 2020. The allocation took into consideration criteria that favor competition among the operators present in the Brazilian market;
- approximately 49 MHz as a national average weighted by population (54% of UPI Ativos Móveis radio frequencies). The division of frequencies strictly respects the spectrum limits per group established by Anatel;
- approximately 7.2 thousand mobile access sites (corresponding to 49% of total UPI Ativos Móveis sites).

The transaction, as of its completion, will add value not only to its Brazilian subsidiary but to the whole TIM Group and its shareholders as it will accelerate its growth and increase operating efficiency through relevant synergies. In addition, positive effects are also expected for customers, since improvements in user experience and in the quality of the services offered are expected from the transaction. Finally, the transaction is expected to benefit the entire telecommunications sector in South America, which will be strengthened in its investment capacity, technological innovation, as well as its competitiveness.

In December 2020 the Board of Directors of TIM S.A. approved the formation of a company, in preparation for future segregation of assets and provision of fiber infrastructure services. This process is one of the intermediate steps in the transformation of TIM in the provision of broadband services and aims to create an open fiber infrastructure company attracting a strategic partner that will become a shareholder. The infrastructure company will operate in the wholesale market and providing fiber connectivity services for last-mile and transport network, for all market operators, with TIM S.A. as an anchor customer. This transaction aims to accelerate the growth of the residential broadband business and unlock the value of TIM's infrastructure.

Revenues

Revenues for the year 2020 of the Brazil Business Unit (TIM Brasil Group) totaled 17,268 million reais (17,377 million reais in 2019, -0.6%).

Revenues from services totaled 16,665 million reais (+68 million reais compared to the 16,597 million reais in 2019, +0.4%).

Revenues from product sales totaled 603 million reais (780 million reais in 2019). The trend reflects the impact of closure for two to three 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. In particular, the main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new retention offerings for higher-value postpaid customers.

Revenues in Q4 2020 totaled 4,678 million reais, increased by 2.0% on the fourth quarter of 2019 (4,586 million reais).

The **mobile ARPU** for 2020 was 24.9 reais, up from the figure recorded in 2019 (23.7 reais) thanks to general 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 December 31, 2020** amounted to 51.4 million, -3.0 million compared to December 31, 2019 (54.4 million). The change is entirely attributable to the prepaid segment (-3.4 million) and partially offset by growth in the postpaid segment (+0.4 million), in part due to the consolidation underway in the market for second SIM cards. Post-paid customers represented 42.4% of the customer base as of December 31, 2020, 3.0 percentage points higher than at December 2019 (39.4%).

EBITDA

EBITDA in 2020 was 8,282 million reais (10,820 million reais in 2019) and the margin on revenues was 48.0% (62.3% in 2019).

The EBITDA in 2019 benefited from non-recurring net income of 2,760 million reais as the balance of 3,024 million reais of income related to the recognition of tax credits following the favorable outcome of tax disputes relating to the inclusion of the ICMS indirect tax in the basis for calculating the PIS/COFINS contribution and 264 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, in addition to liabilities in respect of customers and/or suppliers and charges connected with company reorganization/restructuring.

EBITDA in 2020 reflects the non-recurring charges of 27 million reais mainly related to agreements and the development of non-recurring projects.

Organic EBITDA, net of the non-recurring component, increased by 3.1% and was calculated as follows:

(millions of reais)	2020	2019	Changes absolute	%
EBITDA	8,282	10,820	(2,538)	(23.5)
Non-recurring expenses (income)	27	(2,760)	2,787	
ORGANIC EBITDA - excluding Non-recurring items	8,309	8,060	249	3.1

The growth is attributable to the improvement in the efficiency of the operating expenses structure during the COVID-19 emergency.

The respective margin on revenues stood at 48.1%, an increase in organic terms of 1.7 percentage points compared to 2019.

EBITDA in the fourth quarter of 2020 was 2,336 million reais, increased by 38 million euros compared with the fourth quarter of 2019.

Net of non-recurring income (expenses), the margin on revenues for the fourth quarter of 2020 was 50.5% (50.1% in the fourth quarter of 2019).

The changes in the main cost items are shown below:

	(million euros)		(millions of reais)		
	2020 (a)	2019 (b)	2020 (c)	2019 (d)	Changes (c-d)
Acquisition of goods and services	1,070	1,450	6,298	6,405	(107)
Employee benefits expenses	236	323	1,392	1,425	(33)
Other operating expenses	318	523	1,874	2,301	(427)
Change in inventories	(8)	(5)	(43)	(20)	(23)

EBIT

EBIT for 2020 was 2,801 million reais (5,726 million reais in 2019).

In 2019, EBIT also benefited from the non-recurring net income of 2,760 million reais recorded at EBITDA level.

Organic EBIT, net of the non-recurring component, in 2020 amounted to 2,828 million reais (2,966 million reais in 2019), with a margin on revenues of 16.4% (17.1% in 2019).

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

(millions of reais)	2020	2019	Changes absolute	%
EBIT	2,801	5,726	(2,925)	(51.1)
Non-recurring expenses (income)	27	(2,760)	2,787	
ORGANIC EBIT - excluding Non-recurring items	2,828	2,966	(138)	(4.7)

The EBIT of the first quarter of 2020 totaled 974 million reais (1,250 million reais in the fourth quarter of 2019).

Net of non-recurring income (expenses), the EBIT margin for the fourth quarter of 2020 was 21.4% (27.3% in the fourth quarter of 2019).

MAIN COMMERCIAL DEVELOPMENTS

Domestic

Consumer

TIM is driving the country's digital revolution, continuing to invest in innovation through the development of fixed and mobile Ultra Broadband networks, platforms and highly customized quality services to satisfy customer needs for the home, education, work and leisure. TIM is increasingly committed to spreading a digital culture, offering innovative, flexible and convergent products that boast not only the best fixed and mobile connectivity but also a complete range of multimedia content, with films, TV series, sport, music, video games and major events, delivered through decoders, smart TVs, the Web and mobile apps, as well as smart home solutions and services.

As part of its convergence development, in February 2020 TIM launched **TIM Unica**, a new concept that encompasses fixed, mobile, content and smart home by introducing a series of benefits for the family network. The cornerstone becomes the home's Fiber connection and the possibility for the customer to charge all the family's SIMs to the fixed line's bill as a single payment instrument, thus enjoying unlimited GB for all the smartphones of the components. The domiciliation of the bill, the common means of payment, the clarity and transparency of the monthly expense for family communications make TIM Unica a priority tool for retention and churn rate reduction. The advantages for customers joining the TIM Unica world are enriched over time by combining solutions and benefits that embrace content and the smart home, with dedicated promos and benefits.

The push towards convergence is further represented by the launch of the new simplified Fiber portfolio with a *Best Technology Available* approach, with benefits for customers who choose domiciliation. The back-to-school plan has been enriched with a fundamental concept, "**WiFi Certified by TIM technicians**". In fact, with **TIM SUPER WIFI**, TIM has started a new process to enhance one of its key distinctive assets: our On Field Technicians. Only with TIM can the customer have certified quality WiFi in every corner of the home thanks to the on-site intervention of our technicians who install the Fiber, configure the home system while also installing any repeaters, and issue the customer with the certification of WiFi operation and quality in every corner of the home. The distinctive element in the configuration of the home system is the new TIM Hub+ modem, the first in Italy with WiFi 6, an integral part of the high-quality performance of TIM Fiber.

As part of the process of deploying fiber in Italy since November 2020, TIM was the first operator to offer its customers the offer dedicated to the broadband plan by joining phase 1 of the vouchers made available by the Italian Government for low-income families. The **TIM Super Voucher** offer used for the initiative has a 500-euro bonus for connectivity and the purchase of a product, PC or tablet exclusively on the market offered by TIM.

In addition to the deployment of fiber, TIM has also presided over the Ultra BroadBand market as a whole, in February launching **TIM Super FWA**, a new FWA offer including voice, which thanks to FWA technology and dedicated indoor or outdoor modems, makes it possible to browse the Internet with 30 Megabyte download and 3 Megabyte upload performance even in areas without fiber coverage (White Areas). In order to meet customers' growing browsing demands, in 2020 the offer was enriched with the Unlimited GB Option.

In addition, to support the activation of new FWA customers, the **TIM FWA Rechargeable** offer was launched in September 2020, with a structure and selling proposition aimed at meeting the needs of specific market segments, such as second homes, smart working, distance learning, students and ethnic groups.

Throughout 2020, TIM continued to support the adoption of new fiber technology with offers for ADSL customers already covered by the FTTCab and FTTH service to upgrade to the new technology without additional costs and leveraging on new offer content different to that of the market. The Smart Home and Safe Web browsing security services in the TIM Super portfolio are examples of this, as well as convergence with family SIMs with an ad hoc mobile profile linked to the Fiber offer or GB benefits linked to fixed-line direct debit payments, and, as of September, the new **TIM Per TE Casa offer**, dedicated to the Customer Base.

Close strategic partnerships with major players play a decisive role in supporting the **Fixed-line** segment, as does the significant **content push** and the launch of bundled offers for home use with the use of the TIM box decoder (the "magic box") and Fiber quality. TIMVISION is today the leading aggregator of sports and entertainment content with the most complete and competitive offer on the Italian television market: new original productions, films, series, sports and animation for the whole family thanks to partnerships with the biggest players in the sector.

In March 2020, the **Mondo Disney+** offer was launched exclusively for all fixed network customers, which offers all the entertainment of TIMVISION Plus and Disney+ in a single package, with no time constraints.

Since May 2020, TIM and Netflix have strengthened their partnership with the launch of the **Mondo Netflix** offer, which brings together the complete Netflix experience, TIMVISION Plus and the TIMVISION Box decoder.

In June 2020, with the return of the SERIE A TIM championship post lockdown, TIM relaunched its **Sport** offer, which, thanks to partnerships with NOW TV and DAZN, includes all sports content from the two partners in a single offer at an exclusive price for all TIM BB and UBB customers, also including entertainment from TIMVISION Plus and the TIM Box decoder.

In September 2020, the new **Mondo Intrattenimento** [Entertainment World] offer was introduced, which combines all the exclusive content from Disney+, Netflix and TIMVISION Plus, with access from the home TV to all partner content and the TIMVISION catalog from a single interface, thanks to the TIMVISION Box, included in the offer.

Mondo Intrattenimento is also included in the TIM SUPER WiFi TV offer, giving TIM customers a complete home offering with the power of TIM Fiber, certified WiFi and all the entertainment of Disney+, Netflix and TIMVISION Plus.

In June 2020, an important partnership was signed with Google for the joint development of innovative Smart Home services and for the marketing of **Google Nest** products: TIM was the first telco in the world to integrate its voice and multimedia services into Google products and has accelerated the convergence of core offerings and innovative solutions. Today, TIM customers can enjoy the TIMMusic service from Nest voice assistants and, through the new TIM Voce Smart service, make and receive calls to any fixed network number, using home connectivity and hands free mode.

For **Mobile**, in 2020 TIM continued to support the development of Ultra Broadband, consolidating **4G/4.5G** and developing **5G**.

At national level, **4G** technology has now reached more than **7,700** municipalities, covering over **99%** of the population. The company continued the roll-out to Italy's major cities of **4.5G** services (LTE Advanced technology), which offer data connection speeds of up to 700 Megabits per second.

TIM's technological leadership was confirmed with the **development of 5G**, which is fundamental for the innovation of mobile services that can revolutionize the lives of citizens, consumers and businesses alike, steering the country towards a dimension in which everything is smarter and more connected: from public safety to transport, from environmental monitoring to health, tourism and culture, and even applications for media, education and virtual reality.

TIM 5G is already available with services for citizens and businesses in Italy's main cities with speeds of up to 2 Gigabytes per second: 2020 has seen the steady development of the network with the complete coverage of cities such as Milan (90%), various tourist locations as well as specific locations such as the world's first eco-friendly Green Pea shopping mall in Turin.

Technological leadership means a competitive edge for TIM, which is fundamental for making it mark in a highly competitive market. By making the most of the distinctive quality of the network, TIM has been able to continue its "value" strategy and focus on the quality of its offering, maintaining a premium position on the market.

2020 was also a year of great commitment to schools, teachers and students with important initiatives to support distance learning during the Coronavirus emergency. With this objective, TIM launched the "**E-learning Card**" initiative, dedicated to all mobile customers. The initiative is part of the various activities that TIM is promoting to support schools and is aimed in particular at teachers and students who, in this way, will have the opportunity to browse without traffic limits on the main distance learning platforms without using up their GB.

Another essential aspect of its business strategy was customer retention, with the focus on reducing churn rates and stabilizing customer spending. With this in mind, offer portfolios were launched on the market with content benefits and discounted fees for customers who choose direct debit or credit card debit as their payment method. Moreover, throughout 2020 TIM continued to invest in developing the value of the customer base with increasingly personalized upselling, cross-selling and churn prevention actions, thanks to the use of Big Data Analytics to support the achievement of profitability targets.

Plus, to increase customer retention and satisfaction, **TIM Party** was launched, the loyalty program for all TIM customers that can only be accessed online. With its innovative and distinctive positioning, TIM Party also aims to increase service penetration, act as a showcase for the launch of multimedia products and services and enhance sponsorships, as well as increase the digitalization of the customer base and the acquisition of approval.

The program has three levels: extensive benefits for all customers joining the program; specific benefits for clusters selected based on how long customers have been with TIM and the presence of several TIM services (3Play, 4Play); competitions with prizes.

During the COVID emergency period, TIM Party promptly modified its schedule to meet new customer needs and was the touchpoint of choice for the unlimited GB offer to all TIM consumer customers.

Finally, and still with a view to improving customer loyalty, during February 2020 agreements between TIM S.p.A. and Santander Consumer Bank S.p.A. were signed, launching a partnership to offer a consumer credit platform dedicated to TIM's customers, as announced in November 2019.

Thanks to this partnership, TIM sales points already offered TIM customers financing for the purchase of products with installment plans in 2020. They will subsequently also offer personal loans, credit cards and insurance products designed to meet customers' needs, with a high degree of innovation and digitalization, both of which have always been hallmarks of the two companies.

The launch of consumer credit services in 2020 was only the first step in a process that was strengthened and expanded through the development of a new joint venture, authorized to operate as a financial intermediary and named **TIMFin**, which will enable TIM to further reduce debt and optimize credit costs. TIM customers will also gain quick and easy access to customized and transparent financial and insurance solutions, strengthening and improving the continuity of customer relationships.

TIM is the first telephony operator in Italy, and to date still the only one to include refurbished products in its smartphone price list. After an initial test in 2019 on the iPhone 7 32GB in limited quantities, it continued in 2020 on the iPhone 8 64GB and then with the “**Super Green**” packaging (no accessories and packaged with environmentally friendly materials).

TIM's Smartphones portfolio over the course of 2020 increasingly expanded to include **5G** technology, making up over one third of references, thanks to the introduction of 5G on Top Seller products such as the iPhone 12 family and the achievement of public price points lower than 300 euros. 5G was also introduced in Mobile Broadband (Mi-Fi routers) with a premium placement.

Small Medium Business

TIM's work in the Small Medium Business segment during 2020 developed the following main areas:

- defense of the customer base with reinforcement of retention and prevention actions through the use of advanced analytics and improvement of customer management processes;
- improvement in customer experience in particular in the areas of billing and technical and commercial assistance;
- specialization of the commercial offer on the two macro segments SOHO and SME with the launch of the new TIM Unica Business offer on SOHOs and TIM Comunica on SMEs;
- relaunch of TIM's positioning in the SMB sector with the new marketing campaign centered on quality, assistance and convergent offers;
- expansion of the ICT offer through advanced connectivity solutions (VoIP) and partnerships with major market players, such as Google;
- reinforcement of commercial oversight of the most valuable customers with an increase in the number of customers managed in the portfolio;
- development of the stores channel as a new commercial Touch Point for VAT-registered small traders;
- attention to administrative and commercial management actions for customers with bad debt.

In 2020, SOHO businesses and SMEs were impacted by COVID-related closures and business slowdowns. TIM assisted its customers with specific support actions: free GB and fiber connection at subsidized prices in the periods of greatest crisis. In general, the primary objectives for 2020 were to support and defend the customer base and to consolidate TIM's position as a national player that can meet the connectivity, convergence and IT needs for SMB customers. This objective was pursued by strengthening the commercial front end to manage all churn risk customers with COVID-related difficulties. Solutions were offered to customers to better manage their connectivity or smart working needs and loyalty actions were developed for the most loyal customers (e.g. GigaxTe program or repositioning of higher spending customers). These actions were enabled by new insight analytics tools: predictive big data models, new segmentation based on goods sectors, launch of the *personas* model and industrial district development models.

In order to improve customer satisfaction, a plan was launched to improve customer experience, in particular in the following areas: billing, with the development of a new layout and the optimization of the convergent bill; technical assistance, with improvement in the management of long-term and repeated faults; commercial assistance, with the new customer segmentation in order to guarantee a level of service consistent with the needs and value of customers; digital, with the new public area of the TIM Business website and the new app with the main commercial and care functions.

As for the offerings aimed at the SOHO segment, 2020 saw several updates:

- TIM's position as a single, converging point of reference for customers was strengthened through the launch of the “TIM Unica Business” brand, which demonstrates how the synergy between TIM's fixed, mobile and

ICT services can represent the best for customers in terms of reliability and benefits, supported by ongoing radio, web and TV campaigns highlighting its advantages and opportunities;

- the focus was on the innovation and quality of the TIM network, through the enhancement of 5G on mobile and FTTH technology for fixed;
- the offer portfolio was renewed, simplifying it in order to meet the needs of a market that needs more and more data traffic to manage its work, including remotely; in this regard, moreover, the offer was enriched with a range of included ICT services, in partnership with the best market players, in order to give customers the best online tools for their business and for the increasingly urgent digital transformation in the context of 2020.

For SMEs, TIM continued the development of its VoIP portfolio called TIM Comunica: since June, it had simplified and reviewed its pricing, making it highly appealing both to the CB in terms of loyalty and decommissioning, and to new customers. In addition, the final quarter saw the launch of TIM Comunica Up, the first fully virtual and natively convergent VoIP offering, capable of responding effectively and with a very short time to market to the growing demand from SMEs for smart and mobile work. During the year, the process of strengthening the quality of the VoIP service continued with the activation of new customers on the IMS platform, the introduction of survey automation and the transition of CTIO platforms.

Also for SME connectivity, 2020 was a year of growth in professional offerings, both Internet and MPLS, with particular focus on reducing the digital divide in companies: from the new VDSL Long Distance profile, which finally allows companies to be reached within a radius of over 2 km from the cabinet, to FWA solutions with dedicated bandwidth which can also be combined with VoIP solutions from the TIM Comunica portfolio.

As far as the ICT proposition is concerned, consolidation took place of the four areas that cover the main needs of the segment, starting from Information Security, Smart Working, Internet Presence and the Cloud, intended as computing capacity as well as storage, data backup and the adoption of SaaS solutions.

In addition, with the internal Olivetti and Noovle factories, a review of the services portfolio was initiated to adapt it to the needs of the segment, with particular reference to the new M2M, IoT and cloud offerings.

With reference to the commercial channels, in 2020 the agencies were optimized, the number of customers managed with commercial oversight was doubled, the new stores channel was strengthened and the contribution of the digital channel was increased. Commissioning policies were directed toward higher quality activations and the promotion of convergence and new IT services.

Enterprise

Once again in 2020, TIM confirmed its primary presence in the business and public administration market, giving further impetus to its strategy of focusing on the ICT market in the most general sense of the word, increasing the extent of its services portfolio and investing through all available leverages in strengthening its industrial, expertise and organizational capabilities.

In this sense, the strategic partnership with Google, finalized in February, and the acquisition of 100% of Noovle S.r.l., a Google Cloud Premier Partner, finalized in May, should also be viewed in this light, with the aim of having a distinctive practice of professional services and the ability to develop journey to cloud projects for businesses and public administrations, using both Google technologies and those of other important partners.

In addition, during Q2 2020, TIM launched a new organization designed to better manage the Large Enterprise and Public Administration markets, through a model geared towards managing the main industries and sectors through specifically dedicated organizational functions and the launch of an intense capability building program for the skills and knowledge necessary to understand and address more deeply the business processes of each sector and to develop sophisticated offerings and complex projects.

As far as the market is concerned, the impact of the health care emergency in 2020 has not left Large Enterprises and Public Administration unscathed, highlighting even more the opportunity and potential offered by the digitalization of processes also in terms of resilience of business processes, not only in terms of accelerating the most innovative sectors.

From this point of view, as for the Consumer market and for Small and Medium Enterprises, TIM has also been at the center of the country system in supporting the extraordinary load of connectivity and smart working services needs of Large Enterprises, through various proposals of digital solidarity that, among others, saw the first solutions of connectivity and collaboration services based on TIM and Google Cloud joint solutions, also together with other partners such as the Intesa Sanpaolo Group.

Among other key initiatives to support the health emergency, TIM also provided:

- **support to schools for digital distance learning** thanks to a set of bundled solutions dedicated to Digital Teaching and the world of education with web platform solutions, fixed and mobile connectivity bundled with latest generation devices and modems, tablets and notebooks, and endpoint security solutions for students and teaching staff and perimeter security for individual school needs. Through the www.lascuolacontinua.it website, TIM supports teachers in the optimal use of tools and platforms dedicated

to distance learning such as WeSchool and G Suite for Education, already used by many students, in order to ensure the continuity of educational activities;

- **distribution of over 3,000 devices and SIM cards to hospitals** involved in the emergency and prisons to facilitate contact with family members; in collaboration with the National Deaf Association over 1,000 devices were supplied for deaf people and equipped with apps to facilitate the use of LIS (Sign Language) and for the real-time translation of messages from voice to text and vice versa;
- **support of institutions** involved in the crisis including the **Italian Civil Protection Department, 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 the emergency.

The main new developments concerned the areas most in demand and with the highest potential, the so-called “digital enablers” and, more specifically, the areas of Hybrid Cloud and the IoT.

As already indicated, with the signing of a **strategic partnership between TIM and Google Cloud**, the two major groups joined forces to provide the market with the best infrastructure, skills and platforms to create innovative public, private and hybrid cloud services for the benefit of businesses and public administrations, to support and drive the acceleration of the digitalization process of the organizations that generally lead the innovation process.

The partnership represents a major innovation for both companies and the market and is based on a high degree of complementarity: TIM will leverage its unique assets, the Data Centers in Italy, the most important network infrastructure in the country, the deep knowledge of the Italian market and capillarity. Google will bring its technology, platforms, skills and “natively” open mindset. Google Cloud will participate with TIM, which will build 6 new highly efficient and environmentally sustainable Data Centers, in the opening of new Cloud regions with an unprecedented investment by a foreign multinational in Italy, thanks to which customers will benefit from low latency and high performance cloud services and data. Therefore, to complement the partnership with Google, TIM acquired **Noovle**, in order to complete the offer of projects and cloud solutions with its ICT consulting and system integration skills.

The first immediate result of the partnership already arrived in May, with the signing by the Intesa Sanpaolo Group of a Memorandum of Understanding with TIM and Google that marks the start of negotiations for an important project aimed at providing Intesa Sanpaolo with Google’s cloud services on TIM’s Italian Data Centers. In the following months, important negotiations were initiated and contracts signed with numerous private and public customers.

As part of the **5G&IoT Offer** Tim has consolidated the development of an ecosystem of Vertical Solutions in collaboration with the Group’s Digital Factories and Selected Supply Chain Partners.

2020 began with the important confirmation of TIM’s ability to innovate, with the award from MISE to 3 partnerships with TIM as the reference 5G operator in 3 of the 6 total winning projects of the “Asse II” call for tenders for innovation projects based on 5G and emerging technologies. The proposed partnerships with AGID, the Municipality of Ivrea, the University of Cassino, the Municipality of Arona and the Polytechnic University of Bari, while also leveraging Olivetti’s IoT solutions, were characterized by the diversification of solutions and use cases, the ability to innovate and aggregate an ecosystem of interests and skills that maximizes the potential of 5G, introducing new technologies such as Artificial Intelligence, blockchain and big data in smart city contexts.

In general, over the course of 2020, by leveraging all platforms and networks already available, TIM progressively focused on core capabilities. Major projects in 2020 saw the adoption of TIM’s innovative solutions in terms of **Smart Cities**, including the **Smart Control Room** project developed with the Municipality of Venice, the only one in Italy, which brings together in one “control booth” technologies to improve the city’s mobility and security by creating an urban intelligence model.

Always in an approach to verticalize the 5G&IoT Offer, TIM signed **agreements with Confagricoltura and Coldiretti** aimed at the development of smart agriculture in Italy and that provide companies in the agri-food sector with enabling technologies and application solutions (e.g. sensors, blockchain, AI) to reduce the digital divide in rural and inland areas of Italy and give a new impetus to the sustainable agri-food sector.

In this regard, there are the trials started at the vineyards of the Voerzio-Martini winery in the Langhe area to improve the quality of wine crops, to improve efficiency and cost-optimization through a targeted use of resources and treatments, crop control and protection, traceability and improved quality, while also lowering the environmental impact.

Thanks to the agreement signed in December between TIM and Comau, which follows a two-year field trial, further acceleration was given to the development of the “Vertical” offer of innovative IoT solutions for the digital transformation of manufacturing industries by leveraging the potential of 5G and AI. The two companies will develop new IoT services and products: the first result of the collaboration was the launch of the “*Industrial IoT powered by Comau*” solution for monitoring and diagnostics, even remotely, of industrial production machinery, highlighting maintenance and assistance needs through provisional and predictive systems. All of this is thanks to Ultra Broadband connectivity, TIM’s Edge cloud and Industrial IoT services and the digital technologies of the in.Grid platform combined with Comau’s extensive expertise in factory automation and robotics. Olivetti, the

digital farm of the TIM Group, will provide the specialist skills acquired in the IoT, guaranteeing support and technical assistance at all stages, remotely and in the field.

The main **technological partnership** projects include the one with **Green Pea**: TIM was chosen to digitize the futuristic center, the first “Green retail park” entirely dedicated to eco-friendly shopping designed by the Farinetti family, which opened in Turin on December 8, 2020.

Brazil

In 2020, TIM Brasil refined its positioning strategy as a leading player in the Brazilian market. We continued our customer base renewal process on the consumer mobile market, migrating customers from single service day plans to weekly/monthly recurring plans. We have aggregated more value-added services in terms of variety and relevance to our customers (e.g. mobile financial services), by developing our service plan offerings and enhancing our leadership in the 4G network. TIM Live increased its coverage and customer base, while in the B2B market, IoT initiatives are proving stronger in agribusiness and new opportunities for successful partnerships have arisen.

- **Marketing and brand positioning:** we consolidated the credibility of our brand. A new tag line was launched that represents our mission as a company, “imagine the possibilities”, and we have a new endorser, the Brazilian singer IZA - Woman of the Year in 2020. The evolution of our marketing concept and content allowed TIM to win the prestigious Top of Mind award by “Folha de SP” (one of Brazil’s biggest and most reliable media groups).
- **Mobile offers:** we renewed our offers in all segments following the “beyond connectivity” approach to increase recognition and avoid commoditization. In terms of hybrid plans, we leveraged our partnership with C6 (digital bank) that combines mobile financial services with mobility. The partnership has since been extended to all segments. For the pre-paid segment, we introduced a strong new loyalty program with gamification and mobile advertising features. And finally, on the post-paid segment, we revamped “TIM Black” with a broader portfolio of entertainment services (from just Netflix to HBO Go and YouTube Premium) and premium care services, such as TIM Concierge.
- **Customer Experience:** we are constantly working to improve our customer experience and satisfaction through the use of technology. In this regard, the evolution of AI solutions and our digital channels are key. In 2020, TIM launched “Tais”, its cognitive assistant and deployment of the Meu TIM app increased YoY.
- **Sales channels:** in 2020, we focused on channel productivity and reorganization, from volume to value. Nonetheless, during the Covid-19 outbreak, especially at the beginning, the priority shifted to supporting our sales channels. More recently, we strengthened our capillarity in more critical markets such as the State of São Paulo.
- **Residential market:** the focus on investing in FTTH (Fiber To The Home) expansion continues, with higher speed offers and optimal connection stability. We are present in 31 cities with a customer base growth of 14% in 2020. TIM Live also introduced an innovation by launching the first 400Mbps offering in the Brazilian market and was recognized for the fifth time by the newspaper “Estadão” as the best broadband service in Brazil.
- **Corporate:** we consolidated our “Leaders with Leaders” strategy in agribusiness and launched the first IoT marketplace for B2B in Brazil by promoting IoT solutions through partnerships. In addition, we launched the FCA partnership for connected cars and for industry and mining we are developing a private LTE solution for business-critical use case management.

MAIN CHANGES IN THE REGULATORY FRAMEWORK

Domestic

In this section we report the main changes in the regulatory framework in 2020 in the Domestic region.

As regards the Antitrust proceedings, as well as the proceedings regarding the 28-day invoicing, see the Note “Disputes and pending legal actions, other information, commitments and guarantees” in the TIM Group Consolidated Financial Statements at December 31, 2020.

New EU Electronic Communications Code

The (EU) 2018/1972 Directive, which establishes the new European Electronic Communications Code (Code), will be applicable in Member States after its transposition into national laws, which was to take place by December 21, 2020. To date, Italy has not yet transposed the Code.

The Code reviews and replaces the previous European regulatory framework made up of the Access Directive, Framework Directive, Authorization Directive and the Universal Service Directive.

The main changes concern the regulation of access/interconnection, spectrum management and Universal Service obligations.

Access and interconnection regulation

The new rules aim to stimulate investment in very high capacity networks while continuing to protect competition and the interests of end users.

The new European Electronic Communications Code promotes co-investment as a model for developing Very High Capacity Networks – VHCNs, providing for the possibility of not imposing ex-ante regulatory obligations on new VHCNs set up in co-investment in the face of specific binding commitments for operators with Significant Market Power (SMP) on the conditions of access and the opening up of the co-investment offer.

The new Code also provides for a lighter regulatory regime for SMP companies that have developed a the “wholesale only” model, where the National Regulatory Authority (NRA) may exempt SMP operators who offer communication services from certain obligations, including cost orientation electronics exclusively in wholesale markets, imposing only the obligations of access, non-discrimination and fair and reasonable pricing on them.

Finally, the Code also privileges the obligation of accessing infrastructures over other *ex ante* obligations and extends the possibility of imposing symmetric obligations of access to essential network infrastructures beyond the first distribution/concentration point. Longer market review periods (five years instead of three) are introduced to offer operators greater certainty. The new measures mentioned so far aim to encourage investments in the new VHCNs.

Regulation of fixed and mobile termination of voice calls

In December 2020, the European Commission adopted the **Delegated Regulation** concerning the setting of maximum voice termination rates (fixed and mobile) at EU level, as required by the new Code. The Regulation will enter into force (following publication in the Official Journal) by February 2021 if neither the Parliament nor the European Council objects. European caps (EU maximum prices) on termination rates will be applicable to operators providing fixed and mobile termination services (replacing the prices set by national regulators) from the first day of the third month following their entry into force.

The maximum EU fixed termination price is 0.07 eurocents/min.

The maximum EU mobile termination price is 0.2 eurocents/min.

In order to allow for a gradual transition, a three-year glide path is applied with the following values for Italy: 0.67 eurocents/min in 2021, 0.55 eurocents/min in 2022 and 0.40 eurocents/min in 2023, landing at 0.2 eurocents/min in 2024.

Under certain conditions, which should in principle guarantee price reciprocity, these caps also apply to the termination of calls originating outside the EU.

Recommendation on Relevant Markets

In December 2020, the European Commission published the new Recommendation on Relevant Markets, which replaces the previous Recommendation 2014/710/EU. The new Recommendation defines only two markets (both wholesale) as opposed to the previous five markets:

1. Wholesale local access provided at a fixed location;
2. Wholesale dedicated capacity.

Wholesale call termination on individual public telephone networks provided at a fixed location and wholesale voice call termination on individual mobile networks (former Markets 1 and 2) and wholesale central access provided at a fixed location for mass-market products (former Market 3b) were removed from the list. The obligations in effect in the markets removed from the list remain in effect until further market analysis by the National Regulatory Authority (NRA). NRAs may define (and regulate) additional markets to those included in the new Recommendation, including those in the previous Recommendation on Relevant Markets, only where they can prove that, based on the national context, three conditions are cumulatively met (the so-called “triple test”): (i) high and non-transitory barriers to entry; (ii) market structure not evolving towards effective competition over the relevant time frame; and (iii) insufficiency of antitrust legislation alone to address any market failures.

Spectrum management

The new Code introduces new rules for the development of mobile networks and 5G, including the minimum duration of the rights to use frequencies, equal to 15 years with the possibility of an extension of an additional 5 years. A subsidized regime for the installation of small cells was also introduced as was:

- consistency of installation rules at national level;
- installations not subject to individual preventive permits (with some exceptions);
- installations not subject to contributions or charges in addition to administrative charges;
- right of access under fair, reasonable, transparent and non-discriminatory conditions to any physical infrastructure controlled by public authorities (e.g. light poles, road signs, etc.).

On June 30, 2020, the European Commission adopted Implementing Regulation (EU) 2020/911 (applicable from December 21, 2020), which defines the physical and technical characteristics of the small cells that fall within the scope of the subsidized regime.

“Connectivity” Recommendation

European Commission Recommendation (EU) 2020/1307, dated September 18, 2020, requires Member States to urgently adopt and implement a common Union toolbox to reduce the cost of deploying VHCNs and ensure timely and investment-friendly access to 5G radio spectrum, to foster connectivity in support of economic recovery from the Covid-19 crisis in the Union. In close cooperation with the European Commission, the Member States should reach an agreement on the toolkit by March 30, 2021.

Universal Service obligations

The Code provides an obligation for all broadband internet access service and fixed location voice communication services providers to ensure “financial accessibility” for residential users (in particular those with a low-income or special social needs). However, Member States are free to impose universal service obligations (including coverage obligations where necessary) on designated companies (as is currently the case in Italy, where TIM is the designated company).

Each Member State must decide what is appropriate broadband Internet access; the access speed must at least allow end users to use the services listed in Annex V of the Code.

A Member State can continue to impose obligations related to public telephony, if the need for this service is determined on the basis of national circumstances.

There are no longer specific QoS-Quality of Service obligations related to the provision of the universal service.

Member States can also choose the public and/or sectoral financing methods for costs relating to the universal service:

The changes introduced by the Code will presumably lead to a revision of the universal service regime currently applied in Italy.

While awaiting transposition of the new Code into Italian legislation, the Authority has already implemented the provision that repeals the obligations regarding minimum quality objectives for access and voice telephony services defined by the Authority and imposed only on operators responsible for providing the universal service (in Italy, only TIM). This eliminated the current asymmetry between TIM and its competitors who, despite offering the same access and voice telephony services, were not subject to any quality obligations, any supervisory action or any disputes regarding compliance with the corresponding annual quality objectives.

BEREC Regulation

The 2018/1971 Regulation revises the operating rules for the Body of European Regulators for Electronic Communications (BEREC) and the tasks assigned to it. In particular, these include:

- assisting and advising the Commission, at its request, in relation to drafting legislative proposals in the field of electronic communications, including any proposals to amend the Regulation or Code;
- preparing guidelines for the implementation of the Code (e.g. geographic mapping of access networks, Very High Capacity Networks – VHCN and co-investment, symmetric obligations);
- the BEREC and Commission double-lock veto on decisions relating to the imposition of symmetric obligations beyond the first distribution or concentration point and non-imposition of obligations in the presence of binding commitments on co-investment in VHCN (introduced in the Code).

The Regulation does not amend the governance of BEREC: with continued provision for BEREC and the BEREC Office, the latter being an EU agency with legal personality.

In 2020, BEREC adopted several non-binding guidelines aimed at guiding national authorities' implementation of the new EU Code provisions. In particular, the following guidelines are provided:

- the **definition of VHCN (Very High Capacity Network)**: this definition defines the thresholds of some technical parameters that could mean that fixed networks that are not entirely fiber up to the building/location of the end user qualify as VHCNs;
- **co-investment in new VHCNs**: specifics are provided regarding the application of the criteria of article 76 of the Code, which allows new VHCNs built by the SMP operator in co-investment with other operators not to be subject to regulatory obligations (i.e. to be removed from regulation *ex-ante*);
- **symmetrical infrastructure access obligations**: indications are provided regarding the application of article 61(3) of the Code, which provides for the possibility for National Authorities to impose access obligations on non-SMP operators where this is justified by the presence of barriers to the replicability of network elements (e.g. in the case of installation infrastructure or vertical infrastructure inside buildings);
- the **geographical mapping of broadband networks**: this defines the data to be used and the methods to be followed for mapping the current network coverage of Next Generation Access (NGA) networks and, where applicable, future networks in accordance with article 22 of the Code.

Intra-EU international communications regulation

The BEREC regulation also introduces caps for intra-EU international calls and SMSs only for fixed-line and mobile consumer customers.

The caps for intra-EU international calls and SMSs were applied from May 15, 2019, for a duration of 5 years, so until May 14, 2024:

- 19 euro cents/min (+VAT) for international intra-EU calls;
- 6 euro cents/SMS (+VAT) for intra-EU international SMSs.

Wholesale fixed-line markets

Fixed network access market analysis

The final provision published on August 8, 2019 defines the obligations and economic conditions for wholesale access services for the period 2018-2021.

The main decisions relate to:

- repeal of TIM's qualification as an operator with Significant Market Power (SPM) in the access market - and, consequently, repeal of all ex ante regulatory obligations - in the municipality of Milan and confirmation of SPM operator qualification for the rest of the National territory;
- repeal of the obligation to guide the cost of bitstream copper and fiber service prices in 26 municipalities considered "contestable" (list to be updated annually); the possibility to apply, in the same municipalities, different VULA prices from the national average value set by the Authority starting from 2021, if certain conditions to be defined by the Authority are met, through a specific procedure put in place with resolution no. 481/19/CONS published on February 4, 2020;
- Wholesale access rates for copper and fiber for 2018 equal to those of 2017, unless there is a limited reduction in the VULA FTTC fee;
- gradual increase in the full unbundling price (ULL) and bitstream price on copper in the 2019-2021 period;
- sub loop unbundling (SLU) price stability in the 2019-2021 period;

- gradual decrease in fiber access prices (VULA FTTC and FTTH) and price differentiation of the bandwidth, starting in 2021, depending on whether the access line is on a copper or NGA network;
- repeal of the current prior AGCom notification obligations and verification of *ex ante* "replicability" for flagship offers with speeds greater than or equal to 100 Mbit/s and, in other cases, reduction of prior notification period from 30 to 20 days;
- definition of the process and timing for the decommissioning of TIM exchanges;
- possibility of using vectoring in FTTC cabinets where alternative operators have not requested sub loop unbundling (SLU) lines;
- elimination of current asymmetries in procedures to change TIM network operator between processes to return to TIM and changing from TIM to alternative operators.

In November 2020, AGCom concluded the preliminary reliability assessment of TIM's voluntary separation project for the creation of FiberCop (the Newco that will acquire the secondary copper and fiber access network currently held by TIM and Flash Fiber, a subsidiary of TIM and owned by KKR Infrastructure Fund and Fastweb).

With Resolution no. 637/20/CONS, published in December 2020, the Authority initiated the procedure relating to the coordinated analysis of the markets for fixed network access services pursuant to article 50-ter of the Code and, at the same time, launched the public consultation on the project for the voluntary separation of TIM's fixed access network.

Once the first phase of consultation on the FiberCop Project is complete, AGCom will be able to continue its coordinated analysis with more available elements, both with reference to the regulatory framework (transposition of the new European Electronic Communications Code at national level and adoption of the new Recommendation on Relevant Markets) and initial feedback received from interested parties on the project's general impact on TIM's fixed network access markets.

Infratel Tenders for the subsidizing of Ultra-broadband networks

At the COBUL meeting of May 5, 2020, the Government approved an executive plan for public funding for a total amount of 2.7 billion euros, providing for the following interventions to support the development of UBB demand and infrastructure.

- **School Plan 2020-23 (400 million euros)**
 - connect **32,213 school complexes** (81.4% of the total) to ultrabroadband up to 1 Gbps with 100 Mbps guaranteed
 - all middle and high school complexes throughout Italy
 - all primary and kindergarten complexes in "white areas"
- **Voucher Plan (1,146 million euros)**
 - Families with ISEE under 20,000 euros (286,542,816.30 euros): 500 euros (200 euros for connectivity + 300 euros for Tablet or PC on loan)
 - Other families (320,927,954.20 euros): 200 euros for connectivity of at least 30 Mbps (all technologies including satellite)
 - Companies > 30 Mbit/s (114,617,126.50 euros): 500 euros for connectivity of at least 30 Mbps (all technologies, including satellite)
 - Fiber companies (401,159,942.80 euros): 2,000 euros for connectivity up to 1 Gbits (fiber)
- **Gray Areas Plan (1,126 million euros)**
 - infrastructure of some industrial districts in the "gray areas" on a regional basis and municipalities with a higher concentration of businesses than the population.

School Plan

After a Public Consultation on the School Plan, which concluded in September, on October 19, 2020, Infratel published a call for tenders with a deadline for submission of bids on December 4, 2020, which provides for public funding of 274 million euros split into 7 geographic lots (with a limit of two lots that can be awarded by the same competitor, who can submit bids for all lots).

Voucher Plan

A first phase of intervention, to be implemented urgently by 2020, concerns less advantaged families (Equivalent Economic Situation Indicator, or ISEE, threshold up to 20,000 euros) completely without connectivity services, or with connectivity services below 30Mbit/s.

A second phase of intervention, to be implemented after a public consultation, concerns families with an ISEE income of up to 50,000 euros and businesses.

The phase 1 voucher issuing process began on November 9, 2020.

To implement the second phase of the Voucher Plan, Infratel conducted a public consultation, which concluded in September 2020.

The results of the consultation have not yet been published. At the end of the public consultation, the intervention plan in question will be submitted to the European Commission pursuant to art. 108, subsection 3 of the TFEU and then regulated by a specific decree of the Italian Minister of Economic Development.

Gray Areas Plan

On June 24, 2020, Infratel launched a new consultation on gray and black area coverage to identify gray areas for the implementation of the new activities established by the COBUL of May 5, 2020, in order to:

- monitor the maintenance of the coverage commitments undertaken, pursuant to point 65 of the Community Guidelines, by the operators who responded to the 2019 Consultation;
- gather evidence of new implemented or planned activities for the next three years.

In September 2020, Infratel published the monitoring results in order to update the mapping of UBB coverage of gray and black areas by private operators over the three-year period 2020-2022.

On the basis of the new mapping, it will be possible to define any public interventions in the areas that remain without VHCN (Very High Capacity Network¹) coverage, for which, to date, COBUL has allocated 1.126 billion euros (to be allocated to covering industrial districts and municipalities with a higher concentration of companies).

Based on the published results, taking into account the declarations of the Operators until 2022, the homes potentially affected by public funding interventions amount to more than 4.7 million, or about 22.8% of the total black and gray buildings placed in consultation.

Wholesale mobile network markets

Mobile termination market analysis

On January 22, 2019, AGCom published its final decision on mobile network termination market analysis (resolution no. 599/18/CONS). In particular, AGCom established symmetric tariffs for all MNO and full MVNO operators for the period 2018-2021 (0.98 euro cents in 2018, 0.90 euro cents in 2019, 0.76 euro cents in 2020, 0.67 euro cents in 2021) and confirmed the absence of an obligation to check the termination prices for calls originating outside the European Economic Area (EEA); however, SMP operators cannot adopt termination rates that are higher than those applied to Italian operators by operators in non-EEA countries where rates are regulated.

However, as noted in the European section, in December 2020, the European Commission adopted the **Delegated Regulation** concerning the setting of maximum voice termination rates (fixed and mobile) at EU level, which will enter into force by February 2021 if neither the Parliament nor the European Council objects. EU caps will be applicable to operators providing fixed and mobile termination services (replacing the prices set by national regulators) from the first day of the third month following their entry into force. In order to allow for a gradual transition for the mobile termination, a three-year glide path with the following values is provided for Italy: 0.67 eurocents/min in 2021, 0.55 eurocents/min in 2022 and 0.40 eurocents/min in 2023, landing at 0.2 eurocents/min in 2024.

Retail fixed-line markets

Universal Service

Net cost

Following ruling no. 4616/2015, published on October 2, 2015, in which the Council of State canceled decision no. 1/08/CIR of AGCom on the retroactive application of the new methodological criteria for calculating the net cost of the universal service (USO) relating to the 2004-2007 years, the Authority began the public consultation of the net cost of the total years 2004-2007 with resolution 89/18/CIR, published on July 3, 2018, and subsequent resolution no. 62/19/CIR, published on May 7, 2019. On September 11, 2019, the Authority published the final resolution concerning the Net Cost of Use for 2004-2007 (resolution no. 103/19/CIR) in which it recognized the existence of an unfair charge for TIM of a total of 113.4 million euros to be shared between all fixed-line and mobile operators. The share payable by the OAOs amounts to approximately 26.6 million euros, calculated net of installments already paid by the same operators, following the 2004 and 2005 procedures approved "illo

¹ The following are classed as VHCNs (Very High Capacity Networks):

- For fixed network: fiber networks up to or near the building (FTTB/H);
- For FWA network: the FWA networks where the fiber optic reaches the Base Transceiver Station (BTS).

tempore". In relation to past disputes, still "in progress" to date, following ruling no. 3388/15 of the Council of State, published on July 7, 2015, on September 11, 2019, the Authority launched the public consultation procedure (resolution no. 102/19/CIR) for an in-depth fixed-mobile substitutability analysis, in line with the path outlined for the 2004-2007 years. In this context, ruling no. 6881 of October 8, 2019, in which the Council of State authorized the return of the shares paid by Vodafone to TIM, for the contested years (1999-2000 and 2002-2003). In light of the above-mentioned Council of State ruling, which completely reversed the Lazio TAR rulings no. 6458, 6459, 6461 and 6463 of May 23, 2018, in execution of which the public consultation pursuant to resolution no. 102/19/CIR was started, the Authority revoked the aforementioned resolution with decision 190/19/CIR.

On July 21, 2020, AGCom published the public consultation relating to the review of the iniquity of the net cost of the universal service 1999-2009. In Resolution 263/20/CIR, the Authority defined a new approach to demonstrate the lawfulness of the participation of mobile operators at the net USO cost for the years in question. AGCom's view expressed in the consultation is to recognize *prima facie* the unfairness of the charge for the years 2002-2009. For the previous years 1999-2000, however, the Authority did not recognize the existence of an unfair charge for TIM.

As a result of this view, the aforementioned Council of State provision no. 6881, which imposed on TIM a refund of the sums paid by Vodafone, could lose its effectiveness for the years 2002-2003. The final resolution is expected by early 2021. The extension of the time period subject to renewal until 2009 was necessary following the recent ruling no. 2542/2020 with which the TAR accepted Vodafone's appeal, in terms of fixed-mobile substitutability. The opinions on the years 2004-2007, recently renewed by AGCom with resolution 103/19/CIR, and on which the TAR has not yet expressed an opinion, also hang on the same issue.

On December 4, 2019, AGCom began certification activities for the Net Cost 2010-2013, to be carried out by the BDO S.p.A. company. The review of the years 2010, 2011 and 2012 has been completed while the 2013 net cost verification activities were initiated by AGCom on December 18, 2020.

Quality of Service

In relation to the universal service quality objectives:

- with Resolution no. 651/20/CONS, AGCom fined TIM 58,000.00 euros. The fine was for the failure to reach the 2019 target set for the "Average operator response time to incoming calls". Non-compliance was 10" (actual figures 80" vs. target of 70");
- on December 14, 2020 TIM received from the tax authorities the repayment of 115,998.00 euros. Repayment of the sum originally paid by TIM took place following confirmed Lazio Regional Administrative Court judgment no. 3948/2018, which (accepting TIM's appeal no. 2661/08) annulled AGCom Resolution no. 633/07/CONS that fined TIM for alleged failure to meet the 2006 target set for the "Failure rate per access line".

Guidelines for voluntary withdrawal

With resolution no. 487/18/CONS, the Authority regulated the ways operators must manage discontinuation and transfer methods for user contracts.

TIM challenged the resolution regarding the provisions that limit the right to fully recover the costs in case of withdrawal (discounts from promotions, product installments). The administrative judge dismissed TIM's appeal, as the guidelines would not be directly damaging. TIM once again appealed against Resolution no. 487/18/CONS as a prerequisite for Resolution no. 591/20/CONS by which AGCom ordered TIM to pay an administrative fine for violation of Resolution no. 487/18/CONS regarding withdrawal.

Freedom to choose Modems

With resolution no. 348/18/CONS, the Authority ratified the principle of user freedom to choose modems for Internet access.

TIM challenged the resolution in relation to the transitional provisions for customers who have an internet offer combined with a modem for a fee (sale and rental) in the months preceding the entry into force of resolution no. 348/18/CONS (December 1, 2018). Following the Council of State order at the end of 2018, which suspended the transitional provisions pending a hearing being set in the Lazio TAR, and which asked for the hearing set for October to be brought forward, on January 29, 2019, the Lazio TAR confirmed the public hearing, already set for October 23, 2019. On January 28, 2020, the TAR rejected TIM's appeal. TIM appealed against the TAR judgment.

In May 2020, TIM notified its customers who had signed up for an Internet access and installment modem purchase offer before December 1, 2019, that they had the option to sign up for an equivalent Internet offer without a modem and an allowance for the remaining installments. By signing up for the equivalent offer, the residual debt in installments on the customer's bill for the purchase of the modem would not be due, this did not entail any additional charges for the customer or implied changes to the financial and contractual terms and conditions for using the active services on the line.

Authority fees

AGCom contribution fee

On February 24, 2020, AGCom issued resolution no. 434/19/CONS relating to the payment of the AGCom contribution fee for the year 2020 (calculated on the 2018 financial statements figures). The guidelines for calculating the contribution fee are unchanged compared to the guidelines for calculating the 2019 contribution fee. For 2020, AGCom has confirmed the rate of 1.30 per thousand. On the basis of this new rate, TIM paid around 18.134 million euros under reserve.

Privacy and personal data protection

General Data Protection Regulation (GDPR) and Legislative Decree 101/2018

On May 25, 2018, the General Data Protection Regulation (Regulation (EU) no. 2016/679 – “GDPR”) came into force.

Furthermore, on September 19, 2018, Legislative Decree no. 101 of August 10, 2018 entered into force, which brought the Code regarding the protection of personal data (Legislative Decree June 30, 2003, no. 196) in line with the provisions of the GDPR - EU Regulation 2016/679.

To ensure compliance of personal data processing with the GDPR within Group companies, TIM has carried out the activities provided in the compliance plan.

Of the main changes, the following is noted:

- the appointment of a Data Protection Officer and establishment of related contact points for individuals with questions relating to the processing of their personal data;
- the review of the "System of rules for the application of legislation on personal data protection in the Telecom Italia Group" was completed in 2018 to bring TIM in line with the provisions of the GDPR, and revision of the same policy was completed for Group companies September 2019, as a consequence of the entry into force of Legislative Decree no. 101 of August 10, 2018; in 2020, the System of Rules update addressed, among other things, the issue of handling employee data in connection with the Covid-19 epidemic emergency;
- the updating of the numerous policy notice texts on personal data processing, provided by TIM and the other Group companies to different types of Data Subjects (e.g. customers, employees, visitors).

A specific training project was put in place to raise awareness in the various company departments and illustrate the policies and procedures issued for applying the legislation on personal data processing. This training was provided during 2019. In 2020 training was provided to the Sales Departments in relation to the issue of commercial contacting.

COVID-19 emergency

In light of the COVID-19 emergency, the Data Protection Authority issued provisions and clarifications relating to the processing of employees' personal data in the workplace.

TIM has ensured it is in compliance with the provisions through various activities. In particular:

- an *ad hoc* policy has been drafted relating to the processing of personal data collected through real time temperature checks of employees and all those who access company premises in accordance with the provisions of the Prime Minister's Decree of April 26, 2020;
- the self-certification to be submitted by employees, certifying whether in the last 14 days they have had contact with anyone who has tested positive for Covid-19 or coming from areas at risk according to the WHO guidelines, has been brought into compliance with the Data Protection Authority requirements. The declaration provides that only the necessary, adequate and relevant data regarding the prevention of Covid-19 infection is collected without requesting additional information in relation to the person who tested positive, specific locations visited or other details relating to the private sphere;
- guidance has been given regarding the processing of personal data of TIM employees and Group companies collected during serological tests and the related consents to allow third parties to process the information only if the test is positive.

Spectrum (frequency bands)

In view of the fact that the estimated End of Service date for GSM technology is December 31, 2029, and that the use of UMTS technology is in very rapid decline, in May 2020 the Italian Ministry of Economic Development published a public consultation on the End of Sale of products based exclusively on GSM and UMTS technologies

In July 2020, AGCom issued a decision in favor of renewing for eight years until 2029 the rights to use of the TIM, Vodafone, Iliad and Wind/H3G FDD spectrum in the 2100 MHz band (2x15MHz for TIM and Vodafone, 2x10 MHz for Iliad, 2X5 MHz for Wind/H3G). According to the rules established by AGCom, the renewal cost for TIM, to be paid in 2021, is approximately 240 million euros, with the option to pay in 8 annual installments against a surcharge totaling approximately 277 million euros.

Following an administrative judgment regarding a different frequency band (3.4-3.6 GHz) in September 2020, AGCom, as a prudential measure, formally reopened the procedure for determining the renewal price of 2100 MHz frequencies.

In August 2020, following a public consultation launched in May of the same year, AGCom confirmed June 30, 2022 as the end date for the specific GSM coverage obligations, with December 31, 2029 as the GSM End of Service date.

Regulatory measures for COVID-19

Based on the government "Cura Italia" decree, on March 18, 2020, AGCom adopted a first package of measures aimed at guaranteeing telecommunication services; this package takes into account the current health emergency situation and growth in the consumption of services and network traffic.

Two of the four permanent technical working groups set up by AGCom concern:

- improvement and security of telecommunication networks and services; and
- protection and facilitation of the use of digital services by consumers.

In implementation of the Decree, which allows AGCom to derogate from some regulatory conditions to better deal with public interest issues during the current health emergency period, AGCom has defined measures to improve the conditions of TIM's offer of regulated network services, by providing:

- a temporary reduction in the regulated wholesale costs of the Ethernet band for copper and fiber access
- the maximum commitment for the accelerated supply of transport equipment and VLANs necessary for increasing the bandwidth and for following up the early opening of new NGA cabinets.

In addition, TIM must make its infrastructure available throughout Italy, responding to consumer requests without discrimination in relation to the country's technology and geographical areas.

AGCom has also asked all operators to make all possible efforts to contribute to the management of the state of emergency, indicating actions deemed relevant such as:

- trying to guarantee an increase in the average bandwidth per customer on the fixed network of at least 30% in the shortest possible time, where technically possible;
- making every effort, in the absence of coverage with an NGA fixed network and at the request of the condominium or the legal person responsible for the office, to activate, without any increase in costs until June 30, 2020, every possible access solution;
- recommend to final consumers that they use mainly fixed-line access at home (including wi-fi) so as not to overload the mobile network.

In relation to network adjustments, TIM has significantly increased bandwidth capacity both towards the Big Internet and on national nodes, improved mobile coverage and is increasing the coverage of the UBB fixed network.

In relation to the commercial offer for alternative operators, TIM has made price reductions available for the Ethernet band on the copper and fiber network, is managing requests for bandwidth increase received by the Other Authorized Operators (AOA) with a high priority and has allowed free and direct access to the TIM data network through public peering.

Finally, to counter the spread of Covid-19, TIM has defined an operating procedure for safely carrying out technical network works.

On the other hand, operators voluntarily proposed different measures to their customers. In particular, TIM has proposed free voice calls, free Gigabits and many other voluntary initiatives in support of remote working and distance learning.

In view of the continuing state of emergency related to the containment of the Covid-19 pandemic, TIM asked the Authority to assess, in compliance with the provisions of art. 82 of the "Cura Italia" decree and in accordance with the guidelines set out in Resolution no. 131/20/CONS, an initiative that provides for the enabling of ADSL browsing, at no cost to the user, for access lines on which TIM's "Voice" offer is active. Following consultation with the market and consumer protection associations, by means of Resolution no. 384/20/CONS AGCom approved TIM's initiative, albeit subject to compliance with a number of precautions and clarifications regarding both transparency vis-à-vis the end user and competitive aspects.

Extension of the Golden Power rule to 5G technology services

Law Decree March 25, 2019, no. 22 and Law Decree July 11, 2019, no. 64

The Law Decree of March 25, 2019, no. 22 amends the Law Decree March 15, 2012, no. 21, converted, with amendments, by Law May 11, 2012, no. 56 and classifies 5G development as a strategic activity in relation to defense and national security, which requires stricter controls.

In particular, the following are subject to special powers:

- a. the agreement of contracts or agreements for the purchase of goods or services relating to the design, construction, maintenance and management of 5G service networks;
- b. the acquisition of high-tech components necessary for implementation or management;
- c. factors indicating the existence of vulnerabilities that could compromise the integrity and security of networks and the data sent on them.

In particular, the agreement of contracts and acquisition of high intensity components from subjects outside the European Union, carry an obligation to notify the Prime Minister to allow a timely exercise of the veto power.

Failure to comply with this notification obligation carries a pecuniary administrative fine equal to twice the value of the transaction and in any event not less than 1 percent of the turnover of the last financial year.

The Law Decree also provides for the Prime Minister to adopt a decree (DPCM) to identify measures to simplify the notification methods.

In relation to this, on June 27, 2019, the Government launched a public consultation, for the adoption of the Prime Ministerial Decree, to take contributions from interested parties on the following issues:

- a. identification of simplified notification methods, possibly differentiated (for example, based on activity performed, services offered or type of infrastructure concerned);
- b. definition of simplified procedures and terms for investigations, in relation to specific circumstances.

Contributions were submitted in July 2019.

On July 11, 2019, Law Decree no. 64, which introduced further changes to the provisions of Law Decree March 15, 2012 no. 21, was converted, with amendments, by the Law of May 11, 2012, no. 56.

In relation to 5G in particular, the new Decree introduces the obligation to notify the Prime Minister, making full disclosure within ten days of the finalization of a contract or agreement concerning the purchase of goods or services relating to the design, construction, maintenance and management of 5G networks or the acquisition of high-tech components for the aforementioned construction or management, when agreed with subjects outside the European Union, to allow the possible exercise of the veto power or the imposition of specific requirements or conditions.

The Prime Minister will communicate any possible veto or the imposition of specific requirements or conditions within forty-five days of notification.

Due to the failure to convert the aforementioned Law Decree no. 64 into law, the Golden Power regulations (both general and 5G specific) have been further integrated by the provisions of the Law Decree of September 21, 2019, no. 105, converted with the Law of November 18, 2019, no. 133, containing "Urgent provisions on the cybernetic national security perimeter". In particular, it provides that the obligations aimed at ensuring cyber security also apply to companies subject to 5G specific notification obligations. Furthermore, the terms for the assessment of the possible exercise of special powers by the Government have been extended.

Law Decree no. 23 of April 8, 2020 (adopted with amendments by law no. 40 of June 5, 2020) substantially amended the general Golden Power regulation: also in relation to the communications sector, the obligation to notify of participations by foreign entity companies, including those outside the European Union, has been extended, in cases where the transaction is likely to determine the control over the company in which the equity investment was purchased.

On December 23, 2020, Decree no. 180 of the Presidency of the Council of Ministers was adopted, containing the new regulations for the identification of assets of strategic importance in the energy, transport and communications sectors, subject to the exercise of government powers under the Golden Power.

The measure confirms what has already been established by the previous regulations on telecommunications and amends some provisions relating to other sectors of strategic importance to Italy.

Urgent measures for simplification and digital innovation

Decree Law no. 76 of July 16, 2020

Decree Law no. 76 of July 16, 2020 introduced numerous measures aimed at accelerating the process of administrative simplification and digital innovation also in the electronic communications sector.

In particular, the most important provisions include those that reaffirmed that the State is responsible for the limits of exposure to electric, magnetic and electromagnetic fields, attention values and quality objectives. Mayors will therefore not be able to issue Orders to introduce blanket bans on the installation of systems in the local area.

In addition, the decree simplifies the authorization procedures for the installation of temporary mobile telephony systems, for the excavation works necessary for laying fiber optic, as well as the procedures for obtaining authorizations to carry out interventions in areas subject to environmental restrictions.

Budget Law 2021

Italian Law no. 178 of December 30, 2020

The 2021 Budget Law contains numerous provisions of interest to the telecommunications industry.

Measures relating to employment include an increase in the Fondo Nuove Competenze (New Skills Fund), the extension of the rules governing the expansion contract with an increase to the number of beneficiaries, and the extension of the possibility to use the incentive redundancy scheme from 4 to 7 years set out by art. 4 of Law no. 92 of June 28, 2012.

The Law also provides incentives for investments made in south Italy (exemption from social security contributions by private employers, extension of tax credit for companies that acquire assets functional to technological and digital transformation and for research and development activities), as well as measures aimed at enhancing educational and digital innovation in schools.

In terms of tax, there has been regulatory change on the single property fee for permanent occupancy with cables and pipes for the provision of public utility services (governed by the 2020 Budget Law). The “mediated occupancy” taxation criterion was introduced, which stipulates that, in the event of joint use of infrastructure by companies providing public services that are not the owners of the above-mentioned licensed infrastructure, each company will be required to pay the fee based on its respective use.

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), now called the Ministry of Communications (Minicom), and Anatel (Brazilian National Telecommunications Agency) 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, 2019 establishing a new regulatory environment for the regulation of telecommunications in Brazil. This is the most significant change in 20 years.

The new telecommunications framework allows fixed-line licensees to adapt their contracts from a concession scheme to an authorization scheme. This transition from concession to authorization must be requested by the licensee and requires the approval of Anatel. In return, licensees must, among other conditions, make a commitment to investment in expanding fixed broadband telephony services to areas with no adequate competition for these services, in order to minimize inadequacies and inequalities between areas of Brazil.

The change also affects the roles for authorizing the use of radio frequencies, establishing subsequent renewals (currently limited to only one) and allows the exchange of radio frequencies between operators (secondary spectrum market).

In June 2020, Decree 10402 was published, which governs the procedure for adapting the concession to the authorization regime, as well as the definition of the criteria for calculating investment commitments. The

Decree also established guidelines for the extension of radio frequency authorization, which will be held by Anatel to guarantee greater security for investments in the sector.

Another series of important rules was established by Decree 9612/2018 (“Connectivity Plan”), with a series of guidelines for the adaptation of conduct terms, the onerous concession of spectrum authorization and regulatory acts in general, including: (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 through this type of infrastructure. This Decree also establishes that the network resulting from the commitments must be shared from the moment it enters into service, except where there is adequate competition in the relative reference market.

In relation to the deadlines for the development 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. Telecommunications networks built under the investment plan will have shared access.

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 for: (i) mobile network terminals; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).

Measures adopted for the SMP operator in these markets include a requirement to offer national roaming services for non-SMP operators. The obligation for vertically integrated fixed network operators with an SMP to access the copper network (e.g. leased lines, bitstream and full unbundling) has been maintained.

Since 2016, fixed interconnection rates have been based on a cost-oriented approach. In December 2018, Anatel published the relevant deeds nos. 9,918/2018 and 9,919/2018, which determined specific benchmark tariffs effective February 2020. Prior to their entry into force, Anatel began reviewing these deeds and, on February 24, 2020, published the new deeds nos. 986/2020 and 987/2020.

Revision of the Service Quality Regulation

In December 2019, Anatel approved the new Telecommunication Services Quality Regulation (RQUAL), based on a reactive regulation. In this new model, quality is measured on the basis of three indicators - a Service Quality Index, a Perceived Quality Index and a User Complaints Index - and operators are classified into five categories (A to E). Based on this reactive regulation, Anatel will be able to take measures according to specific cases, such as consumer compensation, the adoption of an action plan or the adoption of precautionary measures to ensure quality standard improvements.

The new regulation is expected to enter into force by 2021; until the work group consisting of Anatel, operators, and the Quality Assurance Support Authority (ESAQ) defines the objectives, criteria, and reference values of the indicators, Anatel will continue to monitor the old indicators that maintain similarity to the new ones established in the new RQUAL. The criteria and reference values will be established in the next 12 months from the launch of the Working Group.

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, and with additional commitments of 1.2 billion reais (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) was made in April 2015 and another two payments (for a total of 860 million reais) were both made in January 2017, while the final installment (142 million reais) 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 the Brazilian population is covered by the 700 MHz LTE network.

Throughout 2020, EAD will have to meet the remaining auction obligations, concluding the relocation of broadcasters and provisions on interference solutions relating to completion of the switch off process and the full availability of the spectrum for mobile operators.

"Marco Civil da Internet" and Network Neutrality

The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law no. 12965/2014, 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. 8771/2016 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 cases of unfair competition.

Strategic Digital Transformation and the Internet of Things

In March 2018, the E-Digital Decree (9319/2018 Decree) was published, in order to identify about 100 strategic actions to encourage competition and the country's level of online productivity, while increasing connectivity and digital inclusion levels. These actions seek to address the digital economy's main strategic questions, including connectivity infrastructure, data use and protection, the IoT and IT security.

The Decree on the National Plan for the Internet of Things (Decree 9854/2019) was published in June 2019 to regulate and promote this technology in Brazil. The IoT is referred to as the "infrastructure integrating the provision of value-added services with the ability to physically or virtually connect things using devices based on existing information and communication technology and their evolution, with interoperability. The Decree lists the following topics, defining them as necessary to further support the National Plan for the Internet of Things: (i) science, technology and innovation; (ii) international integration; (iii) education and professional training; (iv) connectivity and interoperability infrastructure; (v) regulation, security and privacy; (vi) economic feasibility.

In order to develop an IoT environment in the country, Law 14,108/2020 was passed. This law exempts base stations and equipment that integrate machine-to-machine (M2M) ecosystems from FISTEL (an administrative tax collected by Anatel) for 5 years and, in addition, extinguishes the previous license. The definition and regulation of M2M communication systems are established by Anatel.

Data protection

On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13709/2018). The new provisions, as promulgated by the President, are 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 President amended Law 13709 to create the National Data Protection Authority (ANPD), within the structure of the Presidency of the Republic, which implies greater control by the State and, among other aspects, extending the entry into force of the Law to 24 months (August 2020), within which all legal persons must adjust their data processing activities to these new regulations.

In July 2019, Provisional Measure 869/2018 was converted into Law 13853, which provides for the maintenance of the ANPD, as a federal public administration body, part of the executive branch, with a transitory nature, for at least 2 years, when it may be transformed, by the executive branch, into an indirect federal public administration entity".

In June 2020, draft law no. 1,179/2020 was converted into draft law no. 14,010/2020, which postponed the entry into force of the General Data Protection Law, only for the provisions related to fines and penalties, to August 2021. The other provisions of the law take effect from August 2020, as originally proposed. In addition, Decree no. 10,474/2020 (National Data Protection Authority) came into force in August 2020, establishing the ANPD (Autoridade Nacional de Dados Pessoais), which is responsible for, among other things: developing guidelines for the National Data Protection Policy; supervising companies and applying sanctions; and issuing regulations and procedures on personal data protection.

COMPETITION

Domestic

The market

During 2020, the Italian TLC market continued to contract in value due to strong competition and the effects of the health emergency.

The onset of the health emergency caused by the SARS-CoV-2 pandemic, which hit Italy before other European countries, has had consequences on the economy, social behaviors and digital habits, also generating effects on the market and the telecommunications industry.

From the beginning of March to mid-May, during the lockdown period, restrictions were applied to economic activities and social behaviors, which triggered significant events with effects on the use of ICT services, such as the wide diffusion of smart working at Italian companies and the public administration, a strong growth in the use of most digital services including those of public administration, a sudden increase in video communication services for private and work needs, and a massive diffusion of distance learning services, made necessary by the temporary interruption to in-person classes at universities and in all schools of all levels.

The main effect on telecommunications networks was a sudden increase in traffic, which from March 15-30, 2020 exceeded 70%, with peaks of 90% (particularly during working hours), highlighting a strong unexpressed potential in the use of digital tools that came to light due to restrictions.

In terms of long-term trends, the development of Broadband and UltraBroadBand continues to be the main factor of market evolution. The greater availability of UltraBroadBand will allow operators to develop convergent offers that combine Media & Entertainment, IT and Digital services with TLC services. The offer of these services will further boost adoption by broadband customers.

The Italian telecommunications market remains highly competitive, with the greatest impact of market dynamics on voice and data connectivity services. Furthermore, in the new digital world, telecommunications operators have to deal with Over The Top - OTT and device manufacturers with completely different competitive assets and logic.

The traditional business models of the various market players are, therefore, changing over time to exploit new opportunities and meet the challenges posed by the new entrants:

- the Media & Entertainment sector, with the growing importance of the Internet as a complementary distribution platform, is seeing profound transformations. In 2020, the Italian television market saw the further development of over-the-top (OTT) on demand video services (VOD and SVOD), combined with the growing diffusion of OTT services that include linear video content. The central role of the broadband network in these new use modes sees players such as the above-mentioned OTT, telecommunications operators and Consumer Electronics manufacturers take on an increasingly important role;
- in the Information and Communication Technology market, where, although there was overall growth in 2020, the traditional fixed-line and mobile TLC component contracted, in favor of IT components related to digital transformation, especially for large companies, for example with the adoption of Cloud solutions for their technological infrastructures. In this sector, telecommunications operators have been strengthened, including through partnerships, to take advantage of the growth that, in the next few years, will be driven by the digitalization of SMEs and regulatory changes, such as the increasingly stringent rules relating to IT security;
- Consumer Electronics manufacturers are developing services that can be accessed through the Internet by leveraging handset ownership and user experience management, breaking the relationship between customers and TLC providers.

With regard to the current positioning of telecommunications providers in converging markets, on the other hand, as partially described above, the following is taking place with different levels of progress:

- development of new Media & Entertainment services (TV, Music, Gaming) and new Digital services (Smart Home, Digital Advertising, Mobile Payment-Digital Identity);
- development of Innovative Services in the IT market, particularly Cloud, IoT and Cybersecurity services.

After the frequencies were awarded in 2018 and the launch of the service by TIM and Vodafone in 2019, 2020 was characterized by the progressive deployment of the 5G network and the launch of 5G by WindTre, Fastweb and Iliad.

All operators are moving to take advantage of the various opportunities in new vertical markets (e.g. energy & utilities, smart cities, smart manufacturing, automotive, eHealth) and provide new services, enable new production processes and increase efficiency in optimized product management.

Competition in Fixed-line Telecommunications

The fixed-line telecommunications market has continued to see a decline in access and voice revenues, while broadband and ultra-broadband revenues have shown growth. In recent years, service providers have concentrated mainly on expanding the penetration of broadband and ultra-broadband services and defending Voice revenues by introducing bundled voice, broadband and service deals in a highly competitive environment with consequent pricing pressure.

After four quarters of steady decline, in June 2020 the total number of fixed lines showed a significant increase compared to the previous quarter, followed by a similar reduction in September, signs of likely stabilization.

The market scenario involves significant infrastructural activities, by TIM and other parties, firstly Open Fiber (a company controlled by ENEL and CDP), Infratel (a company belonging to the Ministry of Economic Development) and Fastweb who have presented and are still working on extensive development plans for their fiber optic telecommunications networks in many areas of the country.

On August 31, 2020, TIM announced the agreement with KKR Infrastructure and Fastweb for the establishment of FiberCop, the NewCo to which TIM's secondary network will be conferred (from the roadside cabinets to customers' homes) along with the fiber network developed by FlashFiber, the joint venture in which TIM has an 80% and Fastweb a 20% stake.

On the same day, TIM signed a Letter of Intent with CDP Equity (CDPE) intended to implement the wider plan for a single national network (AccessCo) through the merger of FiberCop and Open Fiber. Under the terms of the agreement, TIM will own at least 50.1% of AccessCo and the independence and third-party status of the company will be guaranteed by a shared governance mechanism with CDPE.

Both initiatives are open to co-investment with other operators.

Competition in the Italian fixed-line telecommunications market is also characterized by the presence of other service providers besides TIM, such as WindTre, Fastweb, Vodafone, and Tiscali, which have business models focused on different segments of the market. 2020 saw Sky's entry into UltraBroadBand connectivity with its Sky WiFi offering.

In 2020, Sky's offering was based on a wholesale agreement signed with Open Fiber. It announced an extension to other wholesale operators including Fastweb.

At the end of 2020, fixed accesses in Italy (including OLO Infrastructured and FWA-Fixed Wireless Accesses) were estimated to be slightly down on the previous year. Competition in the access market led to a gradual reduction in TIM's market share.

With regard to the broadband market, there was a progressive increase in the penetration of UltraBroadBand lines with speeds above 30 Mbs compared to the total Broadband and UltraBroadBand lines; in September 2020 they reached a penetration rate of 64.4%. The spread of broadband continues to be driven by the penetration of enabled devices (such as Smart TVs, Smart Speaker, connected devices), but also by growing demand for fast connections and access to new over-IP services that are becoming increasingly widespread (Media & Entertainment, IT and Digital services).

Competition in Mobile Telecommunications

The mobile market has continued to see the rationalization of second and third SIM cards for human communications and growth of SIM cards for machine to machine (M2M) communications.

Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as the Internet of Things and mobile payment.

The competitive scenario of the Italian mobile telecommunications market in 2020 continues to be characterized by an aggressive offer from the operator Iliad in terms of price and volume of data, albeit in slight moderation compared to the previous two years. The operator continues to win over customers and consequently gain a market share to the detriment of other infrastructured operators, mainly WindTre, while TIM has shown a greater resilience, thanks also to the contribution from the second brand, Kena Mobile.

The foregoing has continued to lead to a drop in service spending, even though competitive pressure on tariffs is easing with the main mobile operators tending to increase the prices of bundle offers in the face of the increase in quality of services offered by the network performance.

The competition on 5G has started with the simultaneous presence of TIM, Vodafone, WindTre, Iliad and Fastweb for mobility offers and a progressive coverage of the main cities. The deployment of 5G in the business segment to enable specialized solutions for vertical markets has also begun, with 1 in 5 companies already taking action to use this new technology as an enabler of the digitalization of production processes.

Brazil

In 2020, the macroeconomic scenario was characterized by an unusually harsh change in paradigm, which led to new behavior and consumer habits. As in many countries, the lock-down protocols had a negative impact on the economy, increasing uncertainty, postponing investments, reducing income and employment in a bid to prevent the loss of human lives. On the other hand, the digital transformation has reached another level, putting telecommunications companies firmly in the spotlight, offering up new possibilities and bringing people into contact with each other, driving on advanced services like food and drug deliveries, the streaming of contents and video calls.

Although we continue to be in a situation of political uncertainty, above all in respect of the capacity of the government to fulfill some of the liberal economic programs such as the administrative and tax reforms, and to manage the impacts of the COVID-19 pandemic, the Brazilian economy looks to a recovery. Employment, which achieved poor results, just like in the 2016 recession, is back at the levels it recorded at the start of 2020. Despite the fact that negative growth is expected for the Brazilian GDP in 2020, for 2021 an economic recovery is forecast in excess of 3%. As confirmation of this positive sentiment, the Bovespa index ("IBOV" - the Brazilian stock market indicator) shows the confidence of the market, achieving pre-pandemic results.

Despite the improvement in financial performance indicators, economic conditions are still difficult, with the budget deficit and increasing debts (for central governments, federal states and municipalities) carrying a risk that can only be managed with more structural reform, for which Congress's approval is needed. The current government has recognized the need to maintain the reforms as a top priority, together with the privatization of some companies (such as Eletrobras, Telebras, Correios and DataPrev) to allow constant growth of the economy in the coming years and to improve infrastructure investment.

The mobile telecommunications sector has seen some rationality prevail in the market and in competition, with service providers staying focused on developing their offers on the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies. Finally, but no less important, the reduction from 4 to 3 main mobile players and the increase in infrastructure companies can lead to a better allocation of capital and return on investments.

In the prepaid segment, the main objective of market players has been to raise the percentage for 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 on the basis of the different needs of customers (unlimited voice calls or data packages). The strategy's aim is to improve the mix of the customer base and guarantee greater stability (together with reducing the churn rate) and growth of the ARPU. The market's prepaid customer base had dropped by -4.6% YoY in November 2020.

The postpaid mobile segment records an increase in the customer base, mainly supported by the hybrid Controle segment (in particular by migrations of prepaid customers), although "pure" postpaid lines have also recorded a certain degree of growth. This growth is based on offer segmentation strategies, through the introduction of distinctive characteristics in the use of data services (e.g. unlimited use of data on specific apps such as WhatsApp, Facebook, Twitter, Netflix, etc.) in pursuing a "More for More" policy logic that aims to guarantee a greater stability of prices and an effective repositioning of the customer base on higher value offers (voice + data + contents). The total market postpaid customer base (excluding M2M) had grown by +4.7% YoY in November 2020.

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 main mobile operators already provide 4G coverage for over 98% of the Brazilian population (up to November 2020, latest data available), with the three main players offering average 4G availability in excess of 79% (according to the July 2020 Opensignal report).

The fixed broadband market recorded a growth of +10.1% on an annual basis in November 2020, mainly driven by smaller market operators (+39.6% YoY), which tend to offer cheaper services, particularly in areas where traditional operators have limited infrastructures. As a result, traditional incumbent operators are suffering sharp downturns to their customer base. Penetration rates across the population are still quite low (approximately 51%

of houses) 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 increased its presence, reaching 32 cities by the end of November 2020 and the figure is expected to continue growing over the next few years. TIM Live had a customer base of more than 640 thousand users (growth of 15.4% YoY). In order to achieve faster, smarter growth of the footprint, TIM is evolving organically to create an SPV Open Infra, together with an investor partner and leveraging its last mile fiber infrastructures.

CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

Non-current assets

- **Goodwill:** decreased by 236 million euros, from 23,083 million euros at December 31, 2019 to 22,847 million euros at December 31, 2020, principally due to the effect of the negative exchange difference relative to the goodwill of the Brazil Business Unit¹ (-247 million euros). During 2020, there was also an increase of 11 million euros due to the acquisition of control and related consolidation with the integral method, starting from May 21, 2020, of Noovle S.r.l. and its subsidiaries (Domestic Business Unit).

Further details are provided in the Note "Goodwill" to the Consolidated Financial Statements at December 31, 2020 of the TIM Group.

- **Intangible assets with a finite useful life:** these fell by 927 million euros, from 7,667 million euros at the end of 2019 to 6,740 million euros at December 31, 2020, representing the balance of the following items:
 - capex (+ 1,197 million euros);
 - amortization charge for the year (-1,627 million euros);
 - other disposals, exchange differences and other changes (for a net negative balance of -497 million euro, of which -496 million euro of exchange differences essentially relating to the Brazil Business Unit).
- **Tangible assets:** these fell by 870 million euros, from 14,011 million euros at the end of 2019 to 13,141 million euros at December 31, 2020, representing the balance of the following items:
 - capex (+2,138 million euros);
 - amortization charge for the year (-2,301 million euros);
 - other disposals, exchange differences and other changes (for a net negative balance of -707 million euro, of which -701 million euro of exchange differences essentially relating to the Brazil Business Unit).
- **Rights of use of third-party assets:** these fell by 502 million euros, from 5,494 million euros at the end of 2019 to 4,992 million euros at December 31, 2020, representing the balance of the following items:
 - investments (+74 million euros) and increases in lease contracts (+1,288 million euros). Increases in lease contracts include 368 million euros, related to the recognition of new rights of use of INWIT S.p.A. assets, following the coming into effect on March 31, 2020 of the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A. (now jointly controlled), which regulates hospitality services on INWIT sites;
 - amortization charge for the year (-688 million euros);
 - disposals, exchange differences and other changes (for a negative net balance of -1,176 million euros) including the derecognition of rights of use relative to previous lease agreements stipulated with Vodafone, equal to 266 million euros, as a result of the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A. coming into effect. Exchange differences are negative for -466 million euros and mainly relate to the Brazil Business Unit. Other changes included the lower value of the rights of use recorded as a result of contractual changes during the year.
- **Other non-current assets:** increased by 8,961 million euros mainly due to the booking by the Parent Company TIM S.p.A. of deferred tax assets following the tax recognition of higher values booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis (6,569 million euros). Other non-current assets increased also due to the recording of the investment in the joint venture INWIT (2,713 million euros at December 31, 2020), following its deconsolidation as a result of the dilution by the TIM Group of the investment in the company's capital, consequent to the merger by incorporation of Vodafone Towers S.r.l. into INWIT.

¹The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 6.3768 at December 31, 2020 and 4.52808 at December 31, 2019.

Consolidated equity

Consolidated equity amounted to 28,840 million euros (22,626 million euros at December 31, 2019), of which 26,215 million euros attributable to Owners of the Parent (20,280 million euros at December 31, 2019) and 2,625 million euros attributable to non-controlling interests (2,346 million euros at December 31, 2019). In greater detail, the changes in consolidated equity were the following:

(million euros)	12.31.2020	12.31.2019
At the beginning of the year	22,626	21,747
Total comprehensive income (loss) for the year	5,836	1,206
Dividends approved by:	(378)	(296)
<i>TIM S.p.A.</i>	(316)	(166)
<i>Other Group companies</i>	(62)	(130)
Change in the scope of consolidation	—	(44)
INWIT – deconsolidation	(644)	—
Daphne 3 - capital increase	1,334	—
Issue of equity instruments	43	4
Other changes	23	9
At the end of the year	28,840	22,626

Cash flows

The Net financial debt carrying amount amounted to 23,326 million euros, down by 4,342 million euros compared to December 31, 2019 (27,668 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt:

Change in adjusted net financial debt

(million euros)	2020	2019	Changes
	(a)	(b)	(a-b)
EBITDA	6,739	8,151	(1,412)
Capital expenditures on an accrual basis	(3,409)	(3,784)	375
Change in net operating working capital:	772	(549)	1,321
<i>Change in inventories</i>	20	129	(109)
<i>Change in trade receivables and other net receivables</i>	484	—	484
<i>Change in trade payables</i>	(193)	(28)	(165)
<i>Changes of mobile licenses acquisition payable/spectrum</i>	(110)	(18)	(92)
<i>Other changes in operating receivables/payables</i>	571	(632)	1,203
<i>Change in provisions for employee benefits</i>	(628)	(246)	(382)
<i>Change in operating provisions and Other changes</i>	(170)	235	(405)
Net operating free cash flow	3,304	3,807	(503)
<i>Of which Operating Free Cash Flow related to the mobile licenses acquisition/spectrum</i>	<i>(110)</i>	<i>(18)</i>	<i>(92)</i>
<i>% of Revenues</i>	<i>20.9</i>	<i>21.2</i>	<i>(0.3) pp</i>
Sale of investments and other disposals flow	1,294	160	1,134
Share capital increases/reimbursements, including incidental expenses	1,164	10	1,154
Financial investments	(25)	(5)	(20)
Dividends payment	(390)	(279)	(111)
Increases in lease contracts	(1,288)	(1,140)	(148)
Finance expenses, income taxes and other net non-operating requirements flow	283	(1,414)	1,697
Impact of the application of IFRS 16 at 1/1/2019	—	(3,553)	3,553
Reduction/(Increase) in adjusted net financial debt from continuing operations	4,342	(2,414)	6,756
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	—	16	(16)
Reduction/(Increase) in adjusted net financial debt	4,342	(2,398)	6,740

Equity Free Cash Flow

(million euros)	2020	2019	Changes
NET OPERATING FREE CASH FLOW	3,304	3,807	(503)
Mobile licenses acquisition/spectrum	110	18	92
Financial management	(1,186)	(1,372)	186
Income taxes and other	186	(122)	308
EQUITY FREE CASH FLOW	2,414	2,331	83

In addition to what has already been described with reference to EBITDA, the change in adjusted net financial debt for the first half of 2020 was particularly impacted by the following:

Capital expenditures and for mobile telephone licenses/spectrum

Capex amounted to 3,409 million euros in 2020 (3,784 million euros in 2019).

Capital expenditures and for mobile telephone licenses/spectrum are broken down by operating segment as follows:

(million euros)	2020		2019		Changes
		% weight		% weight	
Domestic	2,748	80.6	2,912	77.0	(164)
Brazil	661	19.4	872	23.0	(211)
Other Operations	—	—	—	—	—
Adjustments and eliminations	—	—	—	—	—
Consolidated Total	3,409	100.0	3,784	100.0	(375)
% of Revenues	21.6		21.1		0.5pp

In particular:

- the **Domestic Business Unit** posted investments of 2,748 billion euros, -164 million euros, -107 million euros in organic terms, compared to FY 2019, with a view to optimizing processes, particularly as a result of the restrictions imposed by the COVID-19 emergency;
- the **Brazil Business Unit** reported expenditures equal to 661 million euros in 2020 (872 million euros in 2019). Excluding the impact of changes in exchange rates (-218 million euros), capex grew by 7 million euros, mainly to strengthen the mobile UltraBroadBand infrastructure and the development of the fixed broadband business of TIM Live.

Change in net operating working capital

The change in Net operating working capital for FY 2020 reflects a positive change of 772 million euros, mainly as a consequence of the change in trade receivables (+484 million euros) and other changes in operating receivables/payables (+571 million euros).

Change in provisions for employee benefits

These reduce by a total of 628 million euros, primarily due to redundancies and the reclassification to payables of amounts not yet liquidated in relation to redundancy plans, already provisioned during previous years. Further details are provided in the Note on “Provisions for employee benefits” in the Consolidated Financial Statements of the TIM Group at December 31, 2020.

Sale of investments and other disposals flow

In FY 2020, this is positive for 1,294 million euros and mainly benefits from the deconsolidation of INWIT S.p.A., as well as collections deriving from sales by the TIM Group of INWIT shares totaling approximately 7.3% of the share capital. Further details are provided in the Note “Equity investments” to the Consolidated Financial Statements at December 31, 2020 of the TIM Group.

In FY 2019, the flow was positive for 160 million euros and mainly referred to the sale of Persidera S.p.A. (142 million euros), as well as to other sales of equity investments and to disposals of non-current assets taking place within the normal operating cycle.

Share capital increases/reimbursements, including incidental costs

In FY 2020, the flow is positive for 1,164 million euros, mainly as a consequence of the contribution made by shareholders outside the Group to the share capital increases of subsidiaries. More specifically, they include the increase in capital of Daphne 3, a newly-established holding company controlled by TIM and in which TIM has contributed a total of 30.2% of INWIT shares. With this share capital increase, the consortium of institutional investors led by Ardian has taken its percentage stake held in Daphne 3 to 49%.

Increases in lease contracts

In FY 2020, the item amounted to 1,288 million euros (1,140 million euros in 2019).

Increases in lease contracts include the higher value of user rights entered following new lease agreements payable, increases in lease payments and renegotiations of existing agreements.

In particular, in FY 2020 this includes 368 million euros, related to the recognition of new rights of use of INWIT S.p.A. assets, following the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A. coming into effect on March 31, 2020.

For further details, see the Note "Rights of use assets" of the Consolidated financial statements at December 31, 2020 of the TIM Group.

Financial expenses, income taxes and other net non-operating requirements flow

In 2020 the item had a total positive balance of 283 million euros. It mainly includes outflows relative to financial management components, as well as the payment and reimbursement of income taxes and changes in non-operating payables and receivables.

Sales of receivables to factoring companies

It should be noted that sales without recourse of trade receivables to factoring companies completed during 2020 resulted in a positive effect on the adjusted net financial debt at December 31, 2020 amounting to 1,970 million euros (1,958 million euros at December 31, 2019).

Following the request made by TIM S.p.A. for the Patent box benefit for the five-year period 2015-2019 and the consequent agreement reached with the Revenue Agency for 2015 and that relating to complementary assets for 2016-2019, the benefit of the tax periods 2015 and 2016 was cumulatively included in the IRES and IRAP adjustment declarations for 2016, presented on September 25, 2020, while the benefit for the tax periods 2017 and 2018 was used in the IRES and IRAP declarations for the tax period 2019 sent on December 10, 2020. In particular, as regards the IRES, the greater 2016 credit of 123 million euros and the 2019 credit of 180 million euros were requested as refund from the Revenue Agency in the related declarations and then transferred and collected respectively on September 30, 2020 and December 21, 2020.

Net financial debt

Net financial debt is composed as follows:

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Non-current financial liabilities			
Bonds	18,856	19,773	(917)
Amounts due to banks, other financial payables and liabilities	4,799	5,832	(1,033)
Non-current financial liabilities for lease contracts	4,199	4,576	(377)
	27,854	30,181	(2,327)
Current financial liabilities (*)			
Bonds	988	1,958	(970)
Amounts due to banks, other financial payables and liabilities	2,689	1,224	1,465
Current financial liabilities for lease contracts	631	639	(8)
	4,308	3,821	487
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	—	655	(655)
Total gross financial debt	32,162	34,657	(2,495)
Non-current financial assets			
Securities other than investments	—	—	—
Non-current financial receivables for lease contracts	(43)	(51)	8
Financial receivables and other financial assets	(2,267)	(2,100)	(167)
	(2,310)	(2,151)	(159)
Current financial assets			
Securities other than investments	(1,092)	(877)	(215)
Current financial receivables arising from lease contracts	(55)	(58)	3
Financial receivables and other financial assets	(162)	(122)	(40)
Cash and cash equivalents	(4,829)	(3,138)	(1,691)
	(6,138)	(4,195)	(1,943)
Financial assets relating to Discontinued operations/Non-current assets held for sale	—	(65)	65
Total financial assets	(8,448)	(6,411)	(2,037)
Net financial debt carrying amount	23,714	28,246	(4,532)
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(388)	(578)	190
Adjusted net financial debt	23,326	27,668	(4,342)
Breakdown as follows:			
Total adjusted gross financial debt	30,193	32,782	(2,589)
Total adjusted financial assets	(6,867)	(5,114)	(1,753)
(*) of which current portion of medium/long-term debt:			
Bonds	988	1,958	(970)
Amounts due to banks, other financial payables and liabilities	1,541	446	1,095
Current financial liabilities for lease contracts	628	639	(11)

The financial risk management policies of the TIM Group are aimed at minimizing market risks, fully hedging exchange rate risk and optimizing interest rate exposure through appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying asset, which is hedged.

In addition, to determine its exposure to interest rates, the Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at a range of 65%–75% for the fixed-rate component and 25%–35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the "Management and control of financial risk" and mainly uses IRS and CCIRS derivative financial instruments.

To provide a better representation of the true performance of Net Financial Debt, in addition to the usual indicator (renamed "Net financial debt carrying amount"), the TIM Group reports a measure called "Adjusted net financial debt", which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and of derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects of IFRS 13 – Fair Value Measurement) from the measurement of derivatives and related financial assets/liabilities.

For further details, see the "Alternative performance indicators" chapter.

Adjusted net financial debt was 23,326 million euros as of December 31, 2020, **4,342 million euros lower than on December 31, 2019** (27,668 million euros). The reduction was due in part to solid generation of free cash flow, obtained in part by optimization of working capital, which allowed payment of dividends on ordinary and savings shares of TIM S.p.A. for total 316 million euros (as compared with 166 million euros paid in 2019 to savings shares only), payment of the installment for the 5G license (110 million euros), as well as the effects of the INWIT transaction. In particular, with regard to INWIT we point out the deconsolidation of the company's debt (643 million euros compared to December 31, 2019) which broadly compensated for new debts for leases to INWIT, now under joint control (368 million euros), after the ending of financial lease contracts with Vodafone (214 million euros), the collection of dividends (256 million euros, of which 214 million euros was in extraordinary dividends) and the sale of 4.3% of the holding (400 million euros). On October 2, 2020, disposals were made by TIM S.p.A. to Daphne 3 S.p.A. of 14.8% of the investment in INWIT (1,345 million euros) and to Canson of 1.2% of the investment in INWIT (109 million euros). On December 4, 2020, following the exercise of an option maturing at year-end, TIM S.p.A. sold the remaining share held in INWIT, equal to 1.8% (161 million euros) to Canson. Therefore, following these transactions, as at December 31, 2020, INWIT was held 30.2% by Daphne 3 S.p.A., a subsidiary held 51% by TIM S.p.A.

Additionally, following the request made by TIM S.p.A. for the Patent box benefit for the five years 2015-2019, 303 million euros has already been collected.

For a better understanding of the information, the table below shows the various ways by which the Net Financial Debt can be shown:

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Net financial debt carrying amount	23,714	28,246	(4,532)
<i>Reversal of fair value measurement of derivatives and related financial liabilities/assets</i>	<i>(388)</i>	<i>(578)</i>	<i>190</i>
Adjusted net financial debt	23,326	27,668	(4,342)
<i>Leasing</i>	<i>(4,732)</i>	<i>(5,204)</i>	<i>472</i>
<i>Leasing – Discontinued operations/Non-current assets held for</i>	<i>—</i>	<i>(571)</i>	<i>571</i>
Adjusted net financial debt – After Lease	18,594	21,893	(3,299)

Net financial debt carrying amount amounted to 23,714 million euros at December 31, 2020, a decrease of 4,532 million euros compared to December 31, 2019 (28,246 million euros). Reversal of the fair value measurement of derivatives and related financial liabilities/assets recorded a change of 190 million euros compared to December 31, 2019 substantially following the fall in US dollar interest rates and the relevant revaluation of hedging on US currency bonds. This change is adjusted by the booked Financial Debt with no monetary effect.

Adjusted Net Financial Debt – After Lease (net of the impact of all leases), which is a parameter adopted by main European peers, was equal to 18,594 million euros at December 31, 2020, down by 3,299 million euros compared to December 31, 2019 (21,893 million euros). The reduction is lower than shown in the Adjusted net financial debt, as the effects of the deconsolidation/new payables due to IFRS 16 in relation to the INWIT transaction, and the effects of the exchange rate on the payables due to IFRS 16 in Brazil, are not taken into account.

Gross financial debt

Bonds

Bonds at December 31, 2020 totaled 19,844 million euros (21,731 million euros at December 31, 2019). Repayments totaled a nominal 19,249 million euros (21,162 million euros at December 31, 2019).

Changes in bonds over 2020 are shown below:

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 719 million euros 4.000% ⁽¹⁾	Euro	719	21-Jan-20
TIM S.A. 1,000 million BRL 104.10% CDI	BRL	1,000	15-Jul-20
Telecom Italia S.p.A. 547 million euros 4.875% ⁽²⁾	Euro	547	25-Sep-20

(1) Net of buy-backs totaling 281 million euros made by the company in 2015.

(2) Net of buy-backs totaling 453 million euros made by the company in 2015.

With reference to Telecom Italia S.p.A. 2002–2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2020 was 217 million euros, up by 12 million euros compared to December 31, 2019 (205 million euros).

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2020.

(billion euros)	12.31.2020		12.31.2019	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – maturing January 2023	5.0	—	5.0	-
Bridge to Bond Facility – maturing May 2021	1.7	—	—	-
Total	6.7	—	5.0	-

At December 31, 2020, TIM had bilateral Term Loans for 1,500 million euros with various banking counterparties and overdraft facilities for 490 million euros, drawn down for the full amount.

On May 18, 2020 TIM created a new credit line, structured as a bridge to bond, for later issuing on the bond market, for 1.7 billion euros and initially maturing after 12 months, with the option of extension for another 12 months.

On January 18, 2021, TIM issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

On January 19, 2021, TIM decided to totally cancel the unused 1.7 billion euro Bridge to Bond line.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 9.74 years.

The average cost of the Group's debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, stood at approximately 3.7%, while the average cost of the Group's debt "After Lease" was equal to approximately 3.4%.

For details on the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, see the Notes “Financial liabilities (non-current and current)” in the Consolidated Financial Statements at December 31, 2020 of the TIM Group.

Current financial assets and liquidity margin

The TIM Group’s available **liquidity margin** amounted to 12,621 million euros, equal to the sum of:

- “Cash and cash equivalents” and “Current securities other than investments” for a total of 5,921 million euros (4,015 million euros at December 31, 2019);
- the totals for the Revolving Credit Facility, of 5,000 million euros, and the Bridge to Bond Facility, of 1,700 million euros, fully available.

This margin is sufficient to cover Group financial liabilities (current and otherwise) falling due over the next 30 months.

In particular:

Cash and cash equivalents amounted to 4,829 million euros (3,138 million euros at December 31, 2019). The different technical forms of investing available cash can be analyzed as follows:

- **maturities:** investments have a maximum maturity of three months;
- **counterparty risk:** investments by the European companies are made with leading banking, financial and industrial institutions with high credit quality. Investments by the companies in South America are made with leading local counterparties;
- **Country risk:** deposits have been made mainly in major European financial markets.

Current securities other than investments amounted to 1,092 million euros (877 million euros at December 31, 2019): These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They included a total of 320 million euros of Italian and European treasury bonds held by Telecom Italia Finance S.A., 447 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash, and 325 million euros of investments in monetary funds by the Brazil Business Unit. The purchases of the above government bonds, which, pursuant to Consob Communication no. DEM/11070007 of August 5, 2011, represent investments in “Sovereign debt securities”, have been made in accordance with the Guidelines for the “Management and control of financial risk” adopted by the TIM Group.

In the fourth quarter of 2020, **adjusted net financial debt** amounted to 23,326 million euros, down by 2,143 million euros compared to September 30, 2020 (25,469 million euros): the improvement is due to positive cash generation and the transaction involving the INWIT shares, described previously.

(million euros)	12.31.2020 (a)	30.9.2020 (b)	Changes (a-b)
Net financial debt carrying amount	23,714	25,632	(1,918)
<i>Reversal of fair value measurement of derivatives and related financial liabilities/assets</i>	<i>(388)</i>	<i>(163)</i>	<i>(225)</i>
Adjusted net financial debt	23,326	25,469	(2,143)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	30,193	30,319	(126)
Total adjusted financial assets	(6,867)	(4,850)	(2,017)

CONSOLIDATED DATA – TABLES OF DETAIL

To follow, the Separate Consolidated Income Statements, Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position, Consolidated Statements of Cash Flows as well as Other Information of the TIM Group.

Separate Consolidated Income Statements

(million euros)	2020	2019	Changes (a-b)	
	(a)	(b)	absolute	%
Revenues	15,805	17,974	(2,169)	(12.1)
Other operating income	211	933	(722)	(77.4)
Total revenues and operating income	16,016	18,907	(2,891)	(15.3)
Acquisition of goods and services	(6,173)	(6,463)	290	4.5
Employee benefits expenses	(2,639)	(3,077)	438	14.2
Other operating expenses	(961)	(1,625)	664	40.9
Change in inventories	(6)	(128)	122	95.3
Internally generated assets	502	537	(35)	(6.5)
Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	6,739	8,151	(1,412)	(17.3)
Depreciation and amortization	(4,616)	(4,927)	311	6.3
Gains/(losses) on disposals of non-current assets	(11)	(49)	38	77.6
Impairment reversals (losses) on non-current assets	(8)	—	(8)	—
Operating profit (loss) (EBIT)	2,104	3,175	(1,071)	(33.7)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	18	(3)	21	—
Other income/(expenses) from investments	454	3	451	—
Finance income	1,143	946	197	20.8
Finance expenses	(2,322)	(2,382)	60	2.5
Profit (loss) before tax from continuing operations	1,397	1,739	(342)	(19.7)
Income tax expense	5,955	(513)	6,468	—
Profit (loss) from continuing operations	7,352	1,226	6,126	—
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	16	(16)	—
Profit (loss) for the year	7,352	1,242	6,110	—
Attributable to:				
Owners of the Parent	7,224	916	6,308	—
Non-controlling interests	128	326	(198)	(60.7)

Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), the following Consolidated Statements of Comprehensive Income include the Profit (loss) for the year as shown in the Separate Consolidated Income Statements and all non-owner changes in equity.

(million euros)	2020	2019
Profit/(Loss) for the year (a)	7,352	1,242
Other components of the Consolidated Statement of Comprehensive Income		
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement		
Financial assets measured at fair value through other comprehensive income:		
Profit (loss) from fair value adjustments	(4)	4
Income tax effect	—	—
(b)	(4)	4
Remeasurements of employee defined benefit plans (IAS 19):		
Actuarial gains (losses)	6	(44)
Income tax effect	(1)	10
(c)	5	(34)
Other comprehensive income (loss) of associates and joint ventures accounted for using the equity method		
Profit (loss)	—	—
Income tax effect	—	—
(d)	—	—
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement (e=b+c+d)	1	(30)
Other components that will be reclassified subsequently to Separate Consolidated Income Statement		
Financial assets measured at fair value through other comprehensive income:		
Profit (loss) from fair value adjustments	5	(19)
Loss (profit) transferred to Separate Consolidated Income Statement	—	(5)
Income tax effect	—	8
(f)	5	(16)
Hedging instruments:		
Profit (loss) from fair value adjustments	(253)	367
Loss (profit) transferred to Separate Consolidated Income Statement	373	(227)
Income tax effect	(30)	(17)
(g)	90	123
Exchange rate differences on translating foreign operations:		
Profit (loss) on translating foreign operations	(1,612)	(113)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement	—	—
Income tax effect	—	—
(h)	(1,612)	(113)
Other comprehensive income (loss) of associates and joint ventures accounted for using the equity method		
Profit (loss)	—	—
Loss (profit) transferred to Separate Consolidated Income Statement	—	—
Income tax effect	—	—
(i)	—	—
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement (k=f+g+h+i)	(1,517)	(6)
Total other components of the Consolidated Statement of Comprehensive Income (m=e+k)	(1,516)	(36)
Total comprehensive income (loss) for the year (a+m)	5,836	1,206
Attributable to:		
Owners of the Parent	6,199	916
Non-controlling interests	(363)	290

Consolidated Statements of Financial Position

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Assets			
Non-current assets			
Intangible assets			
Goodwill	22,847	23,083	(236)
Intangible assets with a finite useful life	6,740	7,667	(927)
	29,587	30,750	(1,163)
Tangible assets			
Property, plant and equipment owned	13,141	14,011	(870)
Rights of use assets	4,992	5,494	(502)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	2,728	11	2,717
Other investments	54	52	2
Non-current financial receivables for lease contracts	43	51	(8)
Other non-current financial assets	2,267	2,100	167
Miscellaneous receivables and other non-current assets	2,114	2,585	(471)
Deferred tax assets	7,496	942	6,554
	14,702	5,741	8,961
Total Non-current assets (a)	62,422	55,996	6,426
Current assets			
Inventories	242	260	(18)
Trade and miscellaneous receivables and other current assets	4,346	4,857	(511)
Current income tax receivables	86	149	(63)
Current financial assets			
Current financial receivables arising from lease contracts	55	58	(3)
Securities other than investments, other financial receivables and other current financial assets	1,254	999	255
Cash and cash equivalents	4,829	3,138	1,691
	6,138	4,195	1,943
Current assets sub-total	10,812	9,461	1,351
Discontinued operations /Non-current assets held for sale			
of a financial nature	—	65	(65)
of a non-financial nature	—	4,582	(4,582)
	—	4,647	(4,647)
Total Current Assets (b)	10,812	14,108	(3,296)
Total Assets (a+b)	73,234	70,104	3,130

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Equity and Liabilities			
Equity			
Equity attributable to owners of the Parent	26,215	20,280	5,935
Non-controlling interests	2,625	2,346	279
Total Equity (c)	28,840	22,626	6,214
Non-current liabilities			
Non-current financial liabilities for financing contracts and others	23,655	25,605	(1,950)
Non-current financial liabilities for lease contracts	4,199	4,576	(377)
Employee benefits	724	1,182	(458)
Deferred tax liabilities	277	248	29
Provisions	770	725	45
Miscellaneous payables and other non-current liabilities	3,602	3,214	388
Total Non-Current Liabilities (d)	33,227	35,550	(2,323)
Current Liabilities			
Current financial liabilities for financing contracts and others	3,677	3,182	495
Current financial liabilities for lease contracts	631	639	(8)
Trade and miscellaneous payables and other current liabilities	6,588	7,218	(630)
Income tax payables	271	84	187
Current liabilities sub-total	11,167	11,123	44
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
of a financial nature	—	655	(655)
of a non-financial nature	—	150	(150)
	—	805	(805)
Total Current Liabilities (e)	11,167	11,928	(761)
Total Liabilities (f=d+e)	44,394	47,478	(3,084)
Total Equity and Liabilities (c+f)	73,234	70,104	3,130

Consolidated Statements of Cash Flows

(million euros)	2020	2019
Cashflow from operating activities:		
Profit (loss) from continuing operations	7,352	1,226
Adjustments for:		
Depreciation & amortization	4,616	4,927
Impairment losses (reversals) on non-current assets (including investments)	36	31
Net change in deferred tax assets and liabilities	(6,538)	271
Losses (gains) realized on disposals of non-current assets (including investments)	(441)	47
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(18)	3
Change in provisions for employee benefits	(628)	(246)
Change in inventories	20	129
Change in trade receivables and other net receivables	484	—
Change in trade payables	(231)	(181)
Net change in income tax receivables/payables	708	114
Net change in miscellaneous receivables/payables and other assets/liabilities	1,191	(387)
Cash flows from (used in) operating activities	(a) 6,551	5,934
Cash flows from investing activities:		
Purchases of intangible, tangible and rights of use assets on a cash basis	(3,477)	(3,649)
Capital grants received	24	28
Acquisition of control of companies or other businesses, net of cash acquired	(7)	—
Acquisitions/disposals of other investments	(11)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)	(251)	231
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of	(33)	125
Proceeds from sale/repayments of intangible, tangible and other non-current	678	14
Cash flows from (used in) investing activities	(b) (3,077)	(3,255)
Cash flows from financing activities:		
Change in current financial liabilities and other	(1,771)	(545)
Proceeds from non-current financial liabilities (including current portion)	1,470	4,527
Repayments of non-current financial liabilities (including current portion)	(2,790)	(4,412)
Changes in hedging and non-hedging derivatives	310	(415)
Share capital proceeds/reimbursements (including subsidiaries)	1,164	10
Dividends paid	(390)	(279)
Changes in ownership interests in consolidated subsidiaries	(2)	—
Cash flows from (used in) financing activities	(c) (2,009)	(1,114)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d) —	16
Aggregate cash flows	(e=a+b+c+d) 1,465	1,581
Net cash and cash equivalents at beginning of the year	(f) 3,202	1,631
Net foreign exchange differences on net cash and cash equivalents	(g) (159)	(10)
Net cash and cash equivalents at end of the year	(h=e+f+g) 4,508	3,202

Purchases of intangible, tangible and rights of use assets

(million euros)	2020	2019
Purchase of intangible assets	(1,197)	(1,064)
Purchase of tangible assets	(2,138)	(2,644)
Purchase of rights of use assets	(1,362)	(1,216)
Total purchase of intangible, tangible and rights of use assets on an accrual basis	(4,697)	(4,924)
Change in payables arising from purchase of intangible, tangible and rights of use assets	1,220	1,275
Total purchases of intangible, tangible and rights of use assets on a cash basis	(3,477)	(3,649)

Additional Cash Flow information

(million euros)	2020	2019
Income taxes (paid)/received	223	(118)
Interest paid	(1,520)	(1,750)
Interest income received	448	589
Dividends received	256	1

Analysis of net cash and cash equivalents

(million euros)	2020	2019
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents - from continuing operations	3,138	1,917
Bank overdrafts repayable on demand - from continuing operations	(1)	(286)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	65	—
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	—	—
	3,202	1,631
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents - from continuing operations	4,829	3,138
Bank overdrafts repayable on demand - from continuing operations	(321)	(1)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	—	65
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	—	—
	4,508	3,202

The additional disclosures required by IAS 7 are provided in the Note “Net Financial Debt” to the TIM Group Consolidated Financial Statements at December 31, 2020.

Other information

Average salaried workforce

(equivalent units)	2020	2019	Changes
Average salaried workforce – Italy	40,140	42,630	(2,490)
Average salaried workforce – Outside Italy	8,959	9,287	(328)
Total average salaried workforce ⁽¹⁾	49,099	51,917	(2,818)

(1) Includes employees with temp work contracts: 9 average employees in Italy in 2020; 5 average employees in Italy in 2019.

Headcount at year end

(units)	12.31.2020	12.31.2019	Changes
Headcount – Italy	42,680	45,266	(2,586)
Headcount – Outside Italy	9,667	9,932	(265)
Total headcount at year end ⁽¹⁾	52,347	55,198	(2,851)

(1) Includes employees with temp work contracts: 9 employees at 12/31/2020; 5 employees in Italy at 12/31/2019.

Headcount at year end – Breakdown by Business Unit

(units)	12.31.2020	12.31.2019	Changes
Domestic	42,925	45,496	(2,571)
Brazil	9,409	9,689	(280)
Other Operations	13	13	—
Total	52,347	55,198	(2,851)

AFTER LEASE INDICATORS

TIM Group, in addition to the conventional financial performance measures established by the IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, following the adoption of IFRS 16, the TIM Group presents the following additional alternative performance indicators:

EBITDA ADJUSTED AFTER LEASE - TIM GROUP

(million euros)	2020	2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring items	7,063	7,505	(442)	(5.9)
Lease payments	(814)	(853)	39	4.5
EBITDA adjusted After Lease (EBITDA-AL)	6,249	6,652	(403)	(6.1)

EBITDA ADJUSTED AFTER LEASE - DOMESTIC

(million euros)	2020	2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring items	5,658	6,144	(486)	(7.9)
Lease payments	(523)	(577)	54	9.4
EBITDA adjusted After Lease (EBITDA-AL)	5,135	5,567	(432)	(7.8)

EBITDA ADJUSTED AFTER LEASE - BRAZIL

(million euros)	2020	2019	Changes	
			absolute	%
ORGANIC EBITDA - excluding non-recurring items	1,412	1,369	43	3.1
Lease payments	(291)	(276)	(15)	(5.6)
EBITDA adjusted After Lease (EBITDA-AL)	1,121	1,093	28	2.5

ADJUSTED NET FINANCIAL DEBT AFTER LEASE - TIM GROUP

(million euros)	12.31.2020	12.31.2019	Changes
Adjusted net financial debt	23,326	27,668	(4,342)
Leasing	(4,732)	(5,775)	1,043
Adjusted net financial debt - After Lease	18,594	21,893	(3,299)

TIM GROUP EQUITY FREE CASH FLOW AFTER LEASE

(million euros)	2020	2019	Changes
EQUITY FREE CASH FLOW	2,414	2,331	83
Leasing	(799)	(797)	(2)
EQUITY FREE CASH FLOW AFTER LEASE	1,615	1,534	81

SUSTAINABILITY ASPECTS

Even more than in previous years, TIM has expressed the fact of its being a “system” business whose dimensions, capillary nature, human capital and infrastructural and technological assets, have allowed everyone to connect, confirming its role as essential service immediately after the health response to the pandemic.

In an increasingly digital world, the capacity becomes strategic to find a sustainable balance between new business models, new classes of services, new working methods and new professional skills that contribute to achieving the 17 Sustainable Development Goals of the 2030 UN Agenda, goals that have become even more urgent following the coronavirus pandemic.

The analysis carried out in 2020, to identify the topics of interest to stakeholders in respect of the social-environmental and economic impacts that the business activities generate within and outside the Company, took into account the extraordinary social-economic context and sought to verify the impact of the COVID-19 pandemic on the material topics identified in 2019, modifying names and descriptions with respect to any emerging topics. The analysis also showed how essential it was for TIM to play a lead role in developing digital expertise and knowledge in its own dimension and in a capacity as enabler for a new digital society. The strong stakeholder focus on the role of the Company as a facilitator for the development of an inclusive digital society was also confirmed by the analysis.

The results of stakeholder engagement, as emerging from the materiality matrix, are reflected in the Sustainability Plan, the heart of the Group's 2020-2022 Strategic Plan, available at the following link: gruppotim.it/en/investors/reports-presentations/presentations-webcasts

The plan of actions in support of the environmental, social and governance strategy aims to obtain a significant, concrete impact on business development, which has adopted the goals of environmental protection and social inclusion that translate into becoming carbon neutral by 2030, increasing the domestic eco-efficiency indicator by 50% and reducing indirect emissions by 70% by 2025, also thanks to continuous investment in renewable energies.

In the area of company commitment, TIM works constantly to overcome the geographic digital divide, to contribute towards social and digital inclusion and strengthen the skills of its people, thanks to custom training programs, also aimed at reducing the churn rate in new employees.

The Plan's objectives for 2020 have all been achieved, with the excellent performance of the “Engagement” cluster, which has improved by 16 points, exceeding the growth objective of 14 points, expected for the end of 2022.

It is in this scenario that TIM's first sustainability bond for 1 billion euros comes, issued in January 2021, which has been much appreciated on the financial market.

Safeguarding health and the management of human capital in times of COVID

The period of the health emergency has modified the working paradigms and called for an intervention on multiple fronts so that the business continuity and health of people would continue to be guaranteed; this has resulted in an extension of work from a remote position, alongside an appropriate organization of work, reinforcing the sense of belonging in the Group people.

To avoid stopping business while limiting potential contagion, smart-working was rapidly extended to more than 32,000 employees in Italy, with the distribution of approximately 6,400 personal computers, as well as the development of software solutions to allow for the use of personal PCs/tablets too, whilst awaiting completion of the corporate equipment plan, envisaged for all our people.

In April, TIM and the trade unions, in the shared aim of safeguarding the health of all workers, stipulated a memorandum of understanding on how to handle the second phase of the COVID-19 emergency, to identify the most suitable strategies to address the health emergency and the guidelines and consequent measures to be implemented. The guidelines, prepared with the collaboration of experts in the analysis and assessment of preventive measures and prophylaxis, were aimed at redefining the organization of work in such a way as to guarantee the best possible personal protection, in respect of the provisions issued by the competent government and health authorities for a gradual return to the office on a geographic and organizational basis.

August saw the successful completion of the meetings with the trade unions aiming to define not only the manner by which to return to the office in a transitional phase, but also an innovative working model, which combines the digitization of processes with the rethinking of spaces and smart work organization, optimizing the experience of remote working seen during the emergency.

The new model aims to support business performance and, at the same time, improve quality of life, focusing on flexibility, autonomy and professional responsibility.

Thanks to the climate of collaboration and trust consolidated in the last year and a half of industrial relations, a route has been started that will be constructed and assisted over time, aware of the necessary cultural leap the parties will be called to make in the medium-term.

Digitization has profoundly changed the work and in this context, TIM has begun an intense, timely adjustment of its organizational and production models through the introduction of organizational and technological innovations. This major transformation can only be achieved through a raising of the level of human capital employed in the company, expanding and redefining the competences held. In this context, November saw the achievement of a specific agreement for reorganizing working hours, on which basis part of the working hours are allocated to specific worker skill development courses. Training uses the resources made available by the New Skills Fund of Anpal¹.

In the understanding, the parties have also shared the comprehensive project prepared by TIM “NexTIM for 2021”, which envisages a total of more than 3 million hours of training, 19 update courses, 101 courses, the involvement of the entire domestic corporate population and a custom plan for each participant.

The program, which was launched in December 2020, has three main lines: innovation of the organization, tools and technologies; improvement of the production processes; and a focus on digital competences.

Materiality analysis

As required by Legislative Decree 254/2016 and according to the requirements of the Global Reporting Initiative Standards, TIM carried out the materiality analysis process again in 2020, to identify the socio-environmental and governance priorities against which define the Three-Year Sustainability Plan and to report business activity, its results and its impact internally and externally of the Company.

Process to identify the material topics

For 2020, TIM took into account the extraordinary social-economic context and sought to verify the impact of the COVID-19 pandemic on the material topics identified in 2019, modifying names and descriptions with respect to any emerging topics.

The taxonomy² to be used in the semantic analysis engine has been updated: to this end, as well as considering the references³ in the context of “sustainability” and “digital” used in 2019, institutional sources referring to “COVID-19” have also been taken into account. Merely by way of example, but not limited to, the following are noted:

- The GSM Association “GSMA COVID-19 Privacy Guidelines”;
- “Joint Statement from the Commission and the Body of European Regulators for Electronic Communications on coping with the increased demand for network connectivity due to the Covid-19 pandemic”, drafted by the BEREC together with the EU;
- “COVID-19 Crisis Response: Digital Development Joint Action Plan and Call for Action”, prepared jointly by the ITU, World Bank, GSMA and World Economic Forum.

The semantic motor engine has thus analyzed 101 public and non-public⁴, national and international⁵ documents, both within and outside the company⁶, focused on the TIM relevant 2019 topics that focused on the pandemic. Through the iterations and on the basis of occurrences⁷ in the various documents, for each 2019 topic new topics have been successfully identified, emerging from the changed context.

In order to obtain the significance of the material topics for the company, an internal questionnaire was given to a significant sample of representative contact people from all the company's departments.

¹ Italian national active labor policies agency

² Each taxonomy is made up of interrelated concepts and keywords with different correlation and significance levels. Each taxonomy was constructed using both Italian and English terms.

³ Such as, for example, the Global Reporting Initiative Standard, ISO 26000, or the Sustainable Development Goals.

⁴ Such as, for example: “Dotazioni, competenze e abitudini digitali degli italiani nell'era Covid 19_rapporto” (Digital equipment, skills and habits of the Italians in the era of COVID-19_report), published by Censis on behalf of TIM and under the scope of the “Risorgimento Digitale” project.

⁵ Such as, for example: “Il digitale in Italia: mercati, dinamiche e policy” (Digital in Italy: markets, dynamics and policies), prepared in June 2020 by Confindustria digitale and Anitec-Assinform or “COVID-19 and the world of work”, published by the International Labour Organization (ILO).

⁶ Such as, for example: “Le reti e gli effetti delle misure di confinamento” (Networks and the effects of lock-down measures) of the TIM Study Center.

⁷ The occurrences identify the number of times that a concept (or a specific term) is detected within the document by the semantic engine and provide an indication of the significance of the topic detected in the context of the document.

As stated, collecting external points of view was facilitated by the use of innovative tools such as semantics and big data analysis⁸, as well as a collaboration platform⁹.

At the end of this initial screening, the company was able to draw up a list of topics representing the following macro areas:

- Correctness of corporate conduct and business resilience
- Adjusting stakeholder engagement to the acceleration of change
- Monitoring the pursuit of ESG goals in corporate strategies
- Management of employment relationships
- Developing the Company's human resources
- Managing the health and safety of workers
- Correctness and innovation in customer relations
- Safeguarding privacy, cybersecurity and personal data security
- Strengthening of infrastructures and network reliability
- Safeguarding diversity and promoting equal opportunities in the company
- Supporting the spread of technology, digital skills and Research and Development
- Capacity building of the players in the supply chain
- Protection of the most vulnerable people from Internet risks
- Promoting and safeguarding human rights
- Reducing energy consumption and combating climate change
- Communicating the impacts of electromagnetic emissions
- Promoting the development of an inclusive digital society and access to digital services

This approach has enabled TIM to expand stakeholder engagement and dynamically observe topics in order to measure their trends over time.

Results at a glance

At the end of the analysis, TIM attributed a relevance score based on the occurrence of the topics¹⁰.

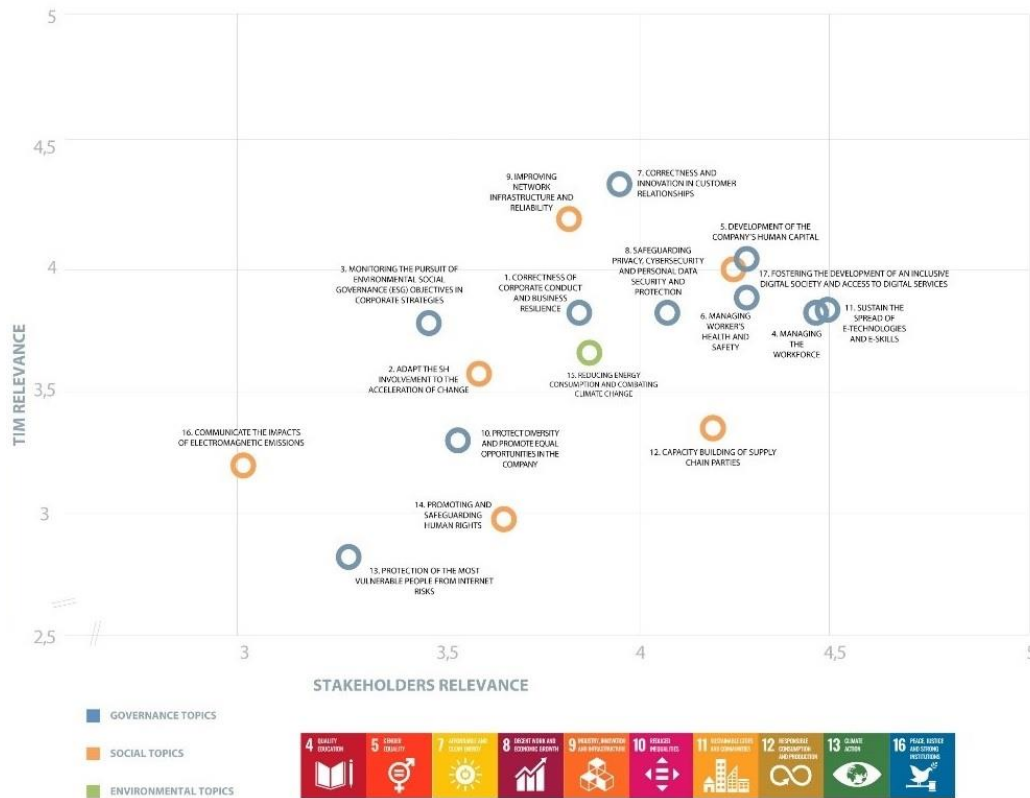
The activity resulted in the following **materiality matrix**:

⁸In keeping with activities of the previous year, stakeholders involved in engagement activities were surveyed, in addition to many other entities, for a total of approximately 500, concerning the 8 categories of TIM stakeholders. Three types of sources were identified for the analysis:

- documents issued by stakeholders (in particular sustainability reports);
- statements issued on company websites;
- discussions on social networks concerning the themes identified thanks to TIM Data Room activities.

⁹ a questionnaire was provided to engage and consult stakeholders, via the collaborative platform, from the categories: customers, suppliers, competitors, institutions, environment, community, persons, also collecting suggestions and feedback.

¹⁰Scores ranged from 1 to 5, where 1 is the minimum frequency, 5 the maximum frequency, 3 the average frequency (calculated from the average occurrence of the topics taken into consideration). 2 and 4 are attributed in proportion to the minimum, average and maximum scores. Finally, the final score was calculated, weighted by the significance attributed to each source according to the different time amplitude covered in the analysis.



The key issues for the Group and its stakeholders reflect the Sustainable Development Goals which TIM believes it can help achieve to a greater extent through its own personnel, technologies and services, adopting business policies that promote and safeguard human rights and the environment.

Specifically, the relevant Goals are:

- No. 4: Quality education
- No. 5: Gender equality
- No. 7: Affordable and clean energy
- No. 8: Decent work and economic growth
- No. 9: Industry, innovation and infrastructure
- No. 10: Reduced inequalities
- No. 11: Sustainable cities and communities
- No. 12: Responsible consumption and production
- No. 13: Fight against climate change;
- No. 16: Peace, justice and strong institutions.

In the 2020 review of material topics, stakeholders highlighted the growing importance attributed to the capacity of the Company to interact with its suppliers ("Capacity building of the players in the supply chain"), to strengthen the skills of its people ("Human capital development") and to play its leadership role in the country's digital development to facilitate community progress ("Supporting the spread of technology, digital skills and Research and Development").

Validation and Review

The validation of the topics and the entire materiality analysis process was carried out by the SM&PIA Department of Financial Reporting, Accounting & Sustainability Performance, with the support of RE2N and TIM Data Room¹¹. The review phase is due to take place as a preparatory stage prior to the next reporting cycle, with the aim of also submitting the results of the analyses carried out, updated in the following year, to specific stakeholder engagement activities.

¹¹ Tim Data Room is the group structure that analyzes digital data from the network through listening, reporting and benchmarking activities (<https://www.linkedin.com/showcase/10989548/admin/>).

RESEARCH AND DEVELOPMENT

Approach to innovation, choice of topics, innovation governance process

The research and development of innovative technologies and services, processes and business models, represents a key factor in the keeping up with the profound transformations of ICT, as well as an asset acting as a driving force for customers and the national system, helping to overcome the socio-cultural barriers that limit the opportunity to participate in the information society and enjoyment of the relative benefits.

TIM has always considered innovation to be a strategic asset and takes great care in governing individual aspects, from its strategic role to its responsibility, objectives and policy.

In 2020, TIM continued to strengthen an innovation model that leverages the concept of essential eco-system to feed into a virtuous circle for the scouting, incubation and planning of innovative initiatives. This takes concrete form, on the one hand, through the labs as multi-site centers, open virtually and connected in a single digital environment to support open innovation and, on the other, through the collaboration with certain universities of excellence, thereby creating a synergy focused on the digital transformation of the company and which certifies TIM as reference partner in Italy.

In line with this, the Group has taken action in several ways:

- by continuing the action to strengthen internal innovation lines, focusing laboratory activities and research groups on key aspects of the development of the fixed and mobile network towards future 5G¹ standards and ultrabroadband, and issues concerning service platforms and new operations systems;
- by selecting, speeding up and co-creating innovative ideas, products and services from the world of start-ups² and small and medium enterprises (SMEs), in line with emerging innovative trends of interest for TIM, in order to improve the commercial offer and internal processes and foster the growth of the ecosystem of Italian start-ups through the corporate accelerator. TIM WCap (Working Capital) leverages the principles of “Open Innovation” (and on the five territorial hubs (Milan, Bologna, Rome, Naples and Catania), in order to foster a contamination that does not only regard the world of start-ups, but rather also extends to include global ICT players (like Cisco) and the main Italian universities (like Federico II of Naples, in whose premises the Naples hub was developed);
- by catalyzing on the innovation capacity of startups with the TIM WCap acceleration program and investment in risk capital made by TIM Ventures, TIM's corporate venture capital³. In 2020, in particular, TIM developed the “Smart Spaces Hackathon”, a marathon for the design of new smart spaces and an initiative pursued in collaboration with Google Cloud and Codemotion.

Innovation management is overseen, with different missions, by the Technology Architectures & Innovation Department and by engineers, and involves various internal and external stakeholders of the Company:

- other areas of the company involved from time to time, both as internal customers for the innovation output solution and as centers of expertise on the topic;
- traditional and digital partners, for the joint go2market⁴ of digital services;
- research centers and universities, for cooperation and joint projects. In 2020, research contracts were stipulated with eight Italian universities, for a total value of about 1.2 million euros;
- on an international level, a vast set of standardization entities, associations, alliances, telco open communities, which play a key role in the evolution of the TLC industry/segment for networks, platforms and services, in which TIM operates in partnership with the main industry stakeholders. In 2020, despite the international crisis caused by the pandemic, TIM confirmed its interest in adhering to the main standardization entities and associations with 30 registrations for a total commitment of approximately one million euros. It has also activated major interaction not only with the associations strictly linked to the world of telecommunications but also with other industrial segments, such as automotive and industry 4.0. Participation in the international entities has allowed TIM to increase its intellectual property, both in terms of acquiring know-how and through direct contribution, aimed at promoting its industrial strategy and intellectual property (with the approval of solutions based on TIM patents in standards).
- on a national level, numerous collaborations are in place with various **Ministries, the European Union, and Public bodies** (such as the National Research Board and local administrations) to pursue projects financed

¹ Acronym for fifth generation mobile standards and technology.

² New companies characterized by a high degree of innovation.

³ TIM Ventures is the company of the TIM group that invests in corporate venture capital.

⁴ It can be defined as the strategy of an organization, which uses internal and external resources (such as the sales team) to offer its unique value proposal to customers and obtain competitive advantage

through the participation in tenders and partnership initiatives. Under this scope, 2020 saw a continuation of the collaboration that had begun in 2019 with Competence Industry Manufacturing 4.0, aimed at fostering the transfer of technological competences and innovation in production processes, products and business models.

TIM's technological evolution is based on the TIM Technological Plan, part of the Business Plan; specifically, the Technological Plan identifies technology strategy in terms of guidelines, specific technologies and roadmaps to adopt in the long term. The three-year technological plan is the reference policy for the Group and includes also the technological evolution plans of subsidiaries. The qualitative and/or quantitative goals have been given an annual framework. They are defined so that they can be objectively measured in compliance with quality standards (ISO 9001) and environmental standards (ISO 14001), and operational innovation processes; in the same way as TIM processes, in general, are based on Telemanagement Forum's reference standard E-Tom⁵.

Overall, in 2020 TIM committed around 1,300 people to working on technological innovation and engineering in Italy, for an overall investment for the Company of 1,070 million euros.

Activities towards the future of mobility and networks: initiatives for 5G

O-RAN and Edge Computing are considered key to allowing 5G to express its technological and business potential. Open Radio Access Network (O-RAN) is a concept based on the interoperability and standardization of the elements of the 4G and 5G radio access network, including a unified interconnection standard for open source software elements and hardware of various suppliers. Edge Computing shifts the processing of traffic and service from a centralized cloud to the end of the network and closer to the customer, thereby enabling the maximum exploitation of high speed and low latency in the network.

2020 set the stage for various 5G initiatives pursued by TIM, namely:

- during the last stage of the Giro d'Italia in Milan, visitors could follow the time-trial race through 5G smartphones in multi-streaming mode, while enjoying on-demand 4K, 360-degree videos live;
- trials began to improve the quality of vine-growing. Using 5G technologies integrated with other innovative tools such as drones, sensors, artificial intelligence, big data and blockchain, the testing made it possible to collect data on weather conditions, soil characteristics and crop health;
- the first connection in Europe capable of permanently exceeding a downlink speed of 4 Gbps on a 5G live network, with 26 Gigahertz (GHz) millimeter-wave (mmWave) frequencies acquired in the Italian Ministry of Economic Development's 5G auction;
- continuing on from the first trial started in Turin in recent years, the 5G revolution started out from Venice, to develop the smart cities of the future: a "director's cabin" at the service of the municipal authority, citizens and visitors, which can improve the city's mobility and safety. The initiative offers a virtuous example of public-private collaboration; with the contribution of Olivetti, the Group's digital farm for IoT solutions, TIM has expanded and enriched the Smart Control Room project functions for the city of Venice;
- together with the Metropolitan City of Genoa, the University of Genoa, Ericsson and Himarc, TIM was awarded the tender run by the Ministry for Economic Development for the supply of 5G smart roads solutions in various areas of the Metropolitan City of Genoa. The project envisages the start-up of trials based on 5G technology, aimed at monitoring the road traffic and safety infrastructures.

All the 5G technology development activities are always accompanied by an articulated technical communication activity, which ranges from an editorial level to a promotional one, with scientific educational events and the organization of specific visits to customers at the TIM innovation laboratories of Turin and Rome.

Research with Universities

In 2020, the participatory research and development activities focused firmly on a model that can guarantee a vision of the eco-system that pursues open innovation, including through collaboration with certain universities of excellence.

As mentioned, the economic commitment was approximately 1.2 million euros, on specific research activities, in particular:

- the multi-year collaboration between TIM and the Polytechnic University of Turin can optimize the subjects chosen for the projects in line with the strategic plan. The 23 research projects activated in 2020 focused on

⁵ The Business Process Framework (eTOM) can be considered an operating model structure for telecommunication service providers; the model describes the corporate processes required, defines the key elements and the way in which they should interact. eTOM is a standard managed by the TM Forum, an association for service providers and their suppliers in the telecommunications and entertainment segments.

specific main topics such as Augmented Reality, Cyber Security, Customer Hyper Experience, Cloud Native & Edge Powered, Space Communication, Hype-Next Technology and 5G Intensive Services, without forgetting the consolidation and evolution of 5G towards the sixth generation mobile technology;

- research projects defined under the scope of the MED (Ministry of Economic Development) Bari Matera 5G project are pursued. The trial, which was concluded in June 2020, sees TIM collaborate with six academic bodies: the National Research Center, the Scuola Superiore Sant'Anna in Pisa, the Polytechnic of Bari, the University of Bari, the University of Basilicata and the University of Salento. In 2020, the 8 research projects focused on 5G and the development of new use scenarios in the numerous application areas developed by the trial. One of the projects was dedicated to assessing the socio-economic impact linked to 5G trials;
- collaboration was resumed with the University of Catania, within the "Joint Open Lab (JoL)" of Catania framework, an instrument with which TIM works to accelerate the finalization and its market activities for development of 5G. In order to pursue these objectives, a convention has been stipulated to collaborate in exploring and implementing architectural solutions and innovative services that exploit the benefits of 5G, with the aim of optimizing the know-how and assets obtained towards initiatives involving local players (e.g. municipalities) and national ones (participation in MED tenders). The 4 projects of 2020 are focused on the topics of Augmented Analytic, 5G Intensive Services and Cloud Native & Edge Powered;
- collaboration has continued with the State University of Milan, both with the tutoring of two research doctorates (PhDs) and by stipulating a three-year agreement, within which a research project began in 2019 to create a "family activity recognition" module, using data acquired by sensors to provide service and content suggestions to family members through the digital family assistant.

Funded research activities

TIM has always been active in innovative and research initiatives funded by the European Union and by national public administrations. This has allowed it to take part in international projects on topics that are essential for the Company and to attract, for the Innovation Department only, financing of around 16 million euros in the three years 2018-2020. In this area, it has been involved in activities carried out as part of funded projects concerning 5G, virtualization and intelligent mobility services, on one hand, furthering its own expertise and on the other, gaining a prominent position in the international sphere, which is a precursor to the preliminary "Beyond 5G" activities, which will lead to the definition of a new generation of mobile systems.

Patents and Intellectual Property Rights⁶

In 2020, the Group's patent portfolio was consistent with that of previous years; indeed, there was a slight increase in assessment activities for patenting and new filings. In addition, the rationalization of the patent portfolio has led to some patents being abandoned which, with technological evolution, are no longer of any value. The Group's patent areas relate to the entire ICT sector, with specific excellence in the mobile sector, in particular in radio access, where TIM is among the leading TLC operators in the world.

In detail, the TIM patents portfolio, relative to approximately 550 patented inventions, at end 2020 comprises approximately 3,200 patent applications and patents, of which approximately 90% are patents (granted by 37 patents offices).

One significant aspect of patent activity is the large number of patents that have stemmed from the collaborations with universities and research institutes: 12 % of patented inventions are the result of such synergies.

Participation in two patent pools⁷ on 3G and 4G/LTE (Long Term Evolution), with two patent inventions essential for the relative standard, should also be noted. The Patent Pool acquired new participants over the course of the year (bringing the current total to 28 license-holders) and granted several licenses to 55 companies.

⁶ Intellectual Property Rights.

⁷ It is a consortium of companies that agree to grant a single license for their patents, necessary for a given technology concerned by the standard.

Research and Development in Brazil

The Architecture & Innovation Technology department⁸ is responsible for TIM SA 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 ensure the network infrastructure evolution is in line with the corporate strategy.

In 2020, the Architecture & Innovation Technology department was made up of 52 colleagues, 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.

TIM Lab is the multifunction environment focused on innovation, which also plays a strategic role in supporting credibility tests and trials, as well as proofs of concepts, 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.

The TIM Lab Innovation Center in Barra da Tijuca, in the State of Rio de Janeiro, has a surface area of 650 m² and can also be used as an innovation space open to new opportunities, guiding innovation on the Brazilian telecommunications market and acting as national point of reference for R&D⁹.

To strengthen the validation capacity regarding new software, features, solutions, technologies, services and devices, in 2020-2022, TIM has planned additional investments for over 10 million reais.

The Architecture & Innovation Technology Department has continued to work on projects and initiatives for the evolution of the business of TIM SA, which can be grouped into the following macro groups:

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

Next generation network projects

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 SA three important competitive advantages:

- a reduction in costs for the LTE implementation¹⁰;
- the increase in the LTE coverage area and the enabling of the carrier aggregation strategy, improving the customer experience through a higher reach;
- 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 99% 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 has continued to significantly improve coverage expansion and indoor penetration, promoting the spread of LTE on a national level and consolidating TIM's leadership in LTE. 89% of TIM SA's current user base of LTE devices is 700 MHz enabled (December 2020).

At the end of December 2020, 3,294 cities had 700 MHz LTE coverage equivalent to over 95% of the urban population; spectrum cleaning was completed in June 2019 in all cities of Brazil, enabling a bandwidth of 700MHz. At end 2021, more than 3,700 cities are expected to be covered by TIM SA in the 700 MHz band, as per the 2020-23 business plan.

⁸Architecture and Innovation Technology, within the Chief Technology and Information Office (CTIO).

⁹ TIM Lab of TIM SA also collaborates with TIMLab Italy, which has more than 50 years of experience

¹⁰ Long Term Evolution.

Projects entailing a reduction of energy consumption

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"¹¹ solution, optimizing network resources and costs¹². At present, this is the largest agreement for RAN sharing worldwide and it supplies 4G services to the main cities of Brazil

The RAN sharing agreement allows TIM to promote the evolution of the spread of LTE in the Brazilian campaign, effectively sharing access and backhaul¹³. 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%.

Next generation network projects, future Internet applications, positive impact on the environment and society

Internet of Things It was back in 2018 that TIM SA launched the very first commercial NB-IoT¹⁴ network in South America, to develop innovative services, aware that the mass introduction of the IoT can change the mobile telephony market considerably, because it leverages the creation of services and - amongst others - is a potential tool for agricultural uses, the connection of cars, traceability solutions and social-health care. In 2020, access to the NB-IoT network was extended.

In 2019, two major milestones were achieved, namely the activation of an E-SIM (Embedded SIM¹⁵) platform and the acquisition of an IoT/M2M platform, which was integrated into the TIM infrastructure in 2020, bringing with it new business opportunities.

Agrobusiness - Since 2018, together with Nokia and BR Digital, TIM SA 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). TIM strengthened its position in relation to vertical agriculture in 2020¹⁶, with the creation of the ConnectarAgro ecosystem (conectaragro.com.br) which brings together TIM, solution providers for the agro segment and telecommunication solution providers.

5G -The commercial launch was announced by TIM SA's CEO early 2020 during an on-line event attended by about 20,000 colleagues; the launch will regard three cities of Brazil: Bento Gonçalves (RS), Itajubá (MG) and Três Lagoas (MS).

Open Lab initiatives

TIM SA 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 SA 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 SA also joined a new working group within the TIP, together with Vodafone and Telefonica, called DCSG (Disaggregated Cell Site Gateway¹⁷). 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 this year, the main functions of the solution were demonstrated with the help of Facebook, core EDGE suppliers and TIP members. In 2020, TIM and the TIP partners completed their validation of the TSS (Total Site Solution), an inexpensive, unrestricted 4G NodeB solution, powered by solar energy and connected by satellite to the core TIM network, to be used in remote zones with low population density. During the year, TIM also adhered to the OpenRAN initiative with the OpenField project, to validate OpenRAN 4G and 5G solutions focused on the separation of hardware and software at a RAN level.

¹¹Sharing the Radio Access Network.

¹² Infrastructure costs are mainly associated with the introduction of new radiating systems and other electronic components, passive site infrastructure and transport networks; therefore, the sharing of the resources supplied by LTE RAN makes for a significant optimization of costs for telecommunications operators.

¹³In the telecommunications sector, a backhaul network or return network is the portion of a hierarchical network that includes intermediate connections between the core network (or backbone network) and the small sub-networks at the "margins" of the same hierarchical network..

¹⁴ Narrowband Internet of Things (NB-IoT) is an LPWAN (Low Power Wide Area Network) radio technology standard developed by 3GPP to enable communication with a wide range of cellular devices and services.

¹⁵It is a minuscule chip incorporated into a device (in particular, smartphones), which is far smaller than traditional telephone SIM cards.

¹⁶Above ground crops in closed large system greenhouses, which are on several height levels, air-conditioned and automated. These systems are 75% more productive than traditional field agriculture and consume about 95% less water. Furthermore, they have no geographical constraints, they can also be used in urban areas and offer fresh and zero-km products.

¹⁷ Based on an open and unbundled architecture, the new DCSG is designed for the economic backhaul of mobile site traffic in existing mobile networks and emerging 5G infrastructures.

CONSOLIDATED NON-FINANCIAL STATEMENT

TIM, as a Relevant Public Interest Entity (PIE), has prepared and presented a “Consolidated non-financial statement” as a “separate report”, as provided for by article 5 *Statement positioning and disclosure regime* of Legislative Decree 254/2016, on the disclosure of non-financial information and diversity information by some companies and some large groups. Moreover, a report (statement) issued by the appointed external auditor pursuant to article 3, subsection 10 of Legislative Decree 254/2016 is annexed to the “Consolidated non-financial statement”; the assignment was given to EY S.p.A.

The Consolidated Non-Financial Statement is available in the sustainability section of the website gruppotim.it.

EVENTS SUBSEQUENT TO DECEMBER 31, 2020

For details of subsequent events, see the specific Note "Events Subsequent to December 31, 2020" in the Consolidated and Separate Financial Statements as at December 31, 2020 of the TIM Group and TIM S.p.A., respectively.

BUSINESS OUTLOOK FOR THE YEAR 2021

The strategy outlined in the 2021-2023 Strategic Plan is hinged on the business objectives achieved and on the solid financial basis assured thanks to having surpassed the cash generation and debt reduction targets recorded in the previous two years. The technological evolution and expansion of fixed, mobile, cloud and data center infrastructure has been sped up and strengthened by the partnerships started with world leaders like Google in Cloud, Disney in TV contents, Vodafone in mobile telephony towers and KKR and Fastweb in the development of super high-speed fiber.

The new three-year plan called “Beyond Connectivity” sets itself the primary objective of expanding on the Group’s business beyond mere connectivity, leveraging the convergence of the different business areas, continuing to simultaneously increase the efficiency of the traditional core business. The plan also takes into account the deterioration of the economic prospects as a consequence of the COVID-19 pandemic.

All business units play a key role in achieving the industrial, financial and sustainability targets of the 2021-2023 Plan:

- **Consumer:** consolidates the convergence model developed, increasing the drive on “adjacent” services (TV, smart home, security), the digitization of processes and the improvement of the custom experience. A stabilization or moderate growth is consequently envisaged to fixed and mobile ARPU as well as significant growth in the volumes of digital services. The actions envisaged will make it possible to keep the fixed lines stable and ensure a constructive dynamic for Mobile Number Portability on the mobile.
- **TIMVISION:** in the context of the services envisaged by the Plan, TIMVISION is the heart of the consumer market strategy and will continue to enrich the offer that transformed the service on the most complete TV platform of the Italian market, aggregating the very best entertainment and sports contents of the main industry players (e.g.: Disney, Netflix, SKY, Dazn, Amazon, Discovery).
- **Business:** the positioning outlined, in the hallmark of the previous plans, confirms the aim of consolidating TIM as reference supplier and top quality partner of integrated solutions for SMEs and major companies. In this context, the adjacent market with the greatest development prospects is that of the ICT services and, in particular, cloud and data center, which can use the contribution of both the strategic partner Google Cloud and the new dedicated pole, Noovle, created to this end. The same model, with specialized factories, will be adopted to develop new business opportunities with Olivetti in the IoT, Telsy in cybersecurity and Sparkle for international connectivity services, expanded both geographically and in terms of the portfolio of “beyond connectivity” services.
- **Wholesale:** after the satisfactory results recorded in 2020, the aim of protecting the market share will continue to be pursued maintaining leadership in ultrabroadband coverage. We will aim to make the most of opportunities arising from unregulated services, in line with the previous plan, also offering other operators services beyond connectivity, such as data centers.

We will also continue to seek to increase process efficiency and strengthen technological leadership in terms of quality and innovation. In terms of total coverage, the objective is confirmed of closing the digital divide throughout the country and today, nationwide (99% of the country), we already record a speed ranging between 30 and 200 Mbps. TIM is committed at the same time to taking speed to more than 1 GB, thanks to coverage with Fiber to the Home (FTTH) technology: FiberCop will reach 76% of property units of gray and black areas by 2025 (56% of technical property units nationwide). At the same time, the FTTC networks will reach 93% of families with an active telephone line by 2023 (91% already today), in addition to coverage with mobile technology, FWA and satellite. The first three regions for which the digital divide will be “closed” are, after Apulia (completed in 2020), Friuli-Venezia Giulia in the first quarter of 2021 and Lombardy thereafter.

In mobile, modernization of the 4G network continues, along with the development of 5G, with the aim of reaching national 5G coverage by 2025.

The commitment has been further strengthened to make TIM a “sustainable” group, thanks to a series of actions, which come in addition to those already planned, to implement improvements in terms of environmental impact, the circular economy, digital inclusion and ESG governance, thanks to new, more advanced reporting tools.

The financial targets for the 2021-2023 plan are available on the website gruppotim.it.

MAIN RISKS AND UNCERTAINTIES

Risk governance is a strategic tool for value creation.

The TIM Group has adopted a Risk Management model that is constantly evolving, aligned with international regulations and standards, to allow the identification, assessment and management of risks in a uniform way within Group companies, highlighting potential synergies between the actors involved in the assessment of the internal control and risk management system.

The *Risk Management* process is designed to identify potential events that may affect the business, to manage the risk within acceptable limits and to provide reasonable confidence about the achievement of business objectives.

The Risk Management Model adopted by the TIM Group

- classifies risks based on their impact into Strategic (resulting from the evolution of factors underpinning the main assumptions used for the development of the Strategic Plan) and Operational (resulting from the evolution of risk factors, both endogenous and exogenous, which can compromise the achievement of business objectives);
- assesses the risks not just individually but also in terms of the risk portfolio (correlation analyses);
- identifies and updates the overall set of risks to which the Group is exposed through the analysis of the Business Plan, the monitoring of the reference context (macroeconomic, regulatory, etc.), cyclical monitoring with the Risk Owners, in order to intercept any changes and/or new risk scenarios, specific analyses on the risks to which the corporate assets may be exposed.

The business outlook for 2021 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 spread of COVID-19. In addition, non-exhaustively, the following additional factors are mentioned: a change in market context, entry of new potential competitors in the fixed-line and mobile sectors, the initiation of procedures by Authorities and consequent delays in the implementation of new strategies, any constraints connected to the exercise of the Golden Power special powers by the Government with effects - currently not foreseeable - in terms of strategic choices and progress of the already announced three-year objectives which may entail, for some, different timing than that initially scheduled or relative achievement with new and more joined-up paths.

Risks related to the business and industry

Risks related to competition

The telecommunications market is characterized by strong competition that may reduce market share in the geographical areas where the TIM Group is engaged as well as erode prices and margins. Competition is focused on innovative products and services and on the capacity to move towards higher levels of convergence in service and expand it to the content offering, but also on the price competition in both traditional and other services. The use of new technologies (IoT) and new knowledge and customer management tools (Big Data) represent enabling factors in the mitigation of competition risks, however failure to exploit these opportunities could become an additional element of risk.

In terms of infrastructural competition, also considering the recent agreement for the establishment of the company FiberCop, which aims to speed up the country's fiber coverage, the development of alternative operators could represent a threat for TIM, also beyond the Plan period.

Competitive risks in the Brazilian market lie in the rapid transition of the business model tied to traditional services and the potential consolidation of the sector. As the consumption patterns of consumers change (migration from voice to data services), service providers need to act swiftly in upgrading their infrastructure and modernizing their portfolios of products and services. In this context, the TIM Brasil group could be impacted by the need to upgrade its technologies and infrastructure rapidly and by greater competition, in the form of aggressive sales strategies and potential business combinations in the sector. In addition, the slow recovery from the country's major economic crisis, the delay in the necessary structural reforms, the COVID-19 pandemic and all the restrictions imposed to fight its spread, directly affected consumption, in particular in the prepaid segment.

Risks related to the development of fixed and mobile networks

To maintain and expand our customer portfolio in each of the markets in which the TIM Group operates, 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 Company's revenues from erosion.

The maintenance and improvement of existing installations depend on the Group's 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;
- increase the geographical coverage of innovative services;
- upgrade the structure of the systems and the networks to adapt it to new technologies;
- sustaining the necessary level of capital expenditure in the long term.

Cybersecurity risks

Cyber risk is on the increase worldwide and as such requires continual monitoring by TIM, given the sheer amount of IT assets the company manages in terms of own TLC infrastructure and assets necessary to deliver services to customers.

In view of these considerations, considerable attention was paid to protecting networks from main threats (e.g. viruses, malware, hackers, data theft). With a wide range of attackers (Cyber-Criminals, Cyber-Terrorists, Insiders, etc.), TIM carries out activities not only to safeguard its infrastructure but also – with a strong sense of responsibility – to protect customers' information assets, that are a priority target for the company.

As regards prevention, TIM monitors cyber risk analyses, defining security plans for the company's IT assets, to identify the actions necessary to mitigate cyber risk in advance and guarantee a security by design approach, also monitoring the plans of these actions and controls on actual adoption in the field.

As for its response to cyber attacks, the Security Operation Center (SOC), operates 24/7, 365 days a year, in order to manage IT security incidents and help limit their impacts. TIM has also implemented an insurance program to cover cyber risks.

Business Continuity Risks

The TIM Group's success depends heavily on the ability to ensure the continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets, which are sensitive to various internal and external threats. TIM has adopted a “Business Continuity Model System” framework in line with international standards, to analyze and prevent these risks.

TIM considers Business Continuity a fundamental factor for the protection of the Group's Value and Reputation, in the provision of its services and in full compliance with customer contracts, sector regulations and, more generally, consistency with reference methodologies and best practice.

TIM implements an ongoing management and governance process, supported by the Company Management, which ensures that the necessary steps are taken to identify the impact of potential losses, that recovery plans and strategies are practicable, and that continuity of services is guaranteed through training programs, tests, exercises and periodic updating and revision activities.

TIM also carries out period risk assessments of the corporate assets with a view to assessing and mitigating the risks of possible direct damages and/or interruptions of business, equally implementing specific insurance programs to cover these risks.

Starting February 2020, the BCMS model and in particular the Business Continuity Plans were also used as tools to ensure maximum operating conditions in the face of the COVID-19 health emergency. The timely adoption by all corporate Departments of the continuity measures defined has made it possible to adopt suitable strategies to continue operating from both a remote position and in on-field operations, always guaranteeing the health and safety of employees.

Fraud risks

Technological progress means that increasingly sophisticated tools and techniques, which are quick acting and have a considerable economic impact, are available for fraudulent activity.

“Conventional” phenomena such as subscription, interconnection, and commercial fraud currently generate the highest part of revenue loss and will continue to be significant in the near future, however new types of Internet-style fraud will gradually gain more ground (Internet spamming/phishing, service reselling, VoIP bypass, etc.). Furthermore, some specific types of provided services (e.g. wholesale interconnection, voice or data services) are potentially at risk of third party use for the construction of fictitious transaction schemes, tax avoidance offenses and/or international money laundering.

The TIM Group has an established organizational model based on the governance of fraud and a separate operational governance system for managing and combating fraud.

The procedure to combat external fraud, drawing on company processes at risk of the offenses contemplated in Italian Legislative Decree no. 231/2001 being committed, sets out internal control mechanisms, including instructions on how employees and Company staff/partners (including suppliers) must behave (Prevention). In the Detection stage, potential cases of fraud are identified and after a preliminary check of the possible grounds the cases may be subject to Investigation and Tackling. To complete the fraud management end-to-end cycle, the results of actions taken are assessed with monitoring and any actions to improve the fraud management process are identified.

The fight against internal fraud, implemented in compliance with the limits imposed by the recently updated trade union agreements prohibiting distance monitoring of staff at work, is carried out through the detection of information relating to the concentration of anomalous operations that flag-up possible cases of serious wrongdoing.

Risks linked to the main sustainability topics

For many years now, the Group has been actively involving and systematically consulting with its stakeholders with a view to improving the company's environmental, social and governance (ESG) performances. The results of engagement activities, as seen from the materiality matrix, are reflected in the Sustainability Plan, the heart of the Group's three-year Strategic Plan.

The plan of action in support of the ESG strategy aims to assure a concrete, significant impact on business development, which has upheld goals of environmental protection and social inclusion.

Reducing energy consumption and combating climate change

More specifically, the Group has set itself the goal of becoming carbon neutral by 2030, reducing indirect emissions by 70% and increasing its domestic eco-efficiency by 50% by 2025. In this respect, the failure to limit energy consumption, as well as having a negative impact on the climate, may result in failure to make savings on costs.

The measures adopted by TIM include:

- initiatives and projects aimed at minimizing the environmental impact of the corporate business, of customers using ICT products and the supply chain;
- energy efficiency improvements on more than 300 sites under the scope of the plants and CED;
- increased use of energy from renewable sources in the corporate processes.

The continuous increase in global average temperatures is having a significant impact on natural events/disasters.

The negative consequences linked to climate change (e.g. floods, wind storms, etc.) can also impact the corporate assets (tangible damages) and Business Continuity (Business Interruption). To this end, TIM has specifically assessed, mitigated and monitored risks deriving from such events, as well as taken out suitable insurance cover.

Social inclusion

The digital divide is a huge obstacle to the dissemination of digitization and the correlated connectivity services, with the risk of commercial repercussions. The "Operazione Risorgimento Digitale", which began in 2019, is the first major free school for the spread of digital skills in Italy and the main project for inclusion that seeks to bridge the digital divide involving the country's less urbanized areas.

Personnel competences and engagement

The capacity to attract and retain qualified, specialized, motivated personnel is key to the success in pursuing the strategic goals and achieving a suitable level of customer experience.

TIM has launched a hiring program, searching out professional profiles that are compatible with the company reindustrialization/reorganization plan and a program for all personnel for the adjustment of competences in support of requalification, reskilling and upskilling processes, also regarding important insourcing of evolved and traditional, technical-specialized core activities.

Following the 2019 Engagement Survey, the plan for TIM personnel has been prepared, with the aim of increasing engagement over a 3-year period.

The plan includes more than 180 actions, of those already in progress, those concerned by revision and those introduced *ex-novo*, which look to personal well-being, organization and personal support, to ensure a better time working in the company and, in turn, comes under the scope of the broader TIM Sustainability Plan.

For more information on the individual sustainability topics, see the 2020 Sustainability Report.

Financial risks

The TIM 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 the TIM Group companies. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, the TIM Group has established guidelines, at central level, 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.

The potential impact of Brexit in terms of financial risk is not considered significant for the TIM Group. In addition, the financial risk management policies adopted provide for the full hedging of exchange rate risk and the minimization of exposure to interest rate and counterparty risk and are also effective in the Brexit context.

Risks associated with the macroeconomic conditions

COVID-19

The continued health emergency for the spread of COVID-19 and the additional restrictive orders issued by national and foreign authorities, coupled with the worsening of the global macroeconomic scenario and the risk of deterioration of the credit profile of certain customer segments, could lead to slowdowns in business activities, deriving from the 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 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 operation of the services provided and the protection of employees' health.

Risks related to macro-economic factors

The TIM Group's economic and financial situation depends on the influence of numerous macroeconomic factors, such as economic growth, consumer confidence, interest rates and exchange rates in the markets where the group operates.

The third quarter of 2020 revealed a lesser slowing to the Italian economy but a worsening of the virus in the last few months of the year, with the consequent restrictions, albeit with different levels of intensity in the different regions, had a negative impact on the profit for the last quarter of 2020 (-7% on the fourth quarter of 2019).

On an annual level, the Italian economy suffered more than other Eurozone countries in respect of the COVID-19 emergency (Italy's GDP estimate is -9.1% vs 2019; EMU GDP estimate is -7.2% vs 2019). The global context continues to be dominated by the difficulties and uncertainties deriving from the evolution of the pandemic, which affect growth forecasts for 2021. A recovery is only expected starting from the second quarter of 2021, as the vaccines are progressively rolled out and expansive monetary and tax policies maintained. Over the next few years, implementation of the Next Generation EU program will act as a stimulus of investments. The pandemic has brought about a major decline in both production and family consumptions: industrial production has recorded a significant decline of approximately 12%, as has family consumption (-11.1%).

Consumption has contracted significantly, especially in the services sector, as a result of the measures adopted to limit contagion and a greater caution by consumers in spending during the pandemic. The Italian government's measures to limit the contagion and support household incomes will have a positive impact on demand, and will also lead to a severe increase in public debt.

In Brazil, after three years of modest growth, the results expected for 2020 have been influenced significantly by the COVID-19 pandemic emergency and the restrictions imposed to limit its spread. According to the Focus Report of the Brazilian Central Bank (BACEN) – a reduction in the Brazilian GDP is expected of -4.40% in 2020, as compared with 1.1% growth booked in 2019.

After a devastating first half of 2020, when the pandemic led to the closure of commercial activities, major restrictions in travel and a considerable outflow of capital, which had already begun in 2019, the scenario in the second half of the year changed and the third quarter recorded strong GDP growth. 2020 did not recover the level of activities at end 2019, but growth expectations are higher than those forecast for the first half of the year.

Recently, after the adoption of strict measures restricting travel and ordering social distancing, in a bid to reduce the transmission of COVID-19, the gradual relieving of the restrictive measures and the return to economic activities should reduce the negative effects on the results booked by TIM Brasil early 2020, which saw a reduction in revenues in both the prepaid and postpaid segments. It is not yet possible, however, to predict if the Brazilian economy and the results of TIM Brasil will return to pre-crisis levels.

Risks relating to the legislative and regulatory context

Regulatory risks

The electronic communications industry is highly regulated. As such, new decisions by the Communications Authority (AGCom) may lead to changes in the regulatory framework that may affect the expected results of the Group and the guidance announced to the market. In addition, the position of significant market power held by TIM in the fixed-line access markets and the structure of the mobile markets results in high levels of scrutiny from the Italian Antitrust Authority (AGCM) over competition in the sector.

The main elements that introduce uncertainty are:

- lack of predictability in start-up timing and consequent final decisions in new proceedings by AGCom and AGCM;
- AGCom decisions with retroactive effect (for example, the revision of prices applicable to past years and the effectiveness and actual implementation of repricing policies, also following administrative rulings);
- AGCom decisions that can influence technological choices, with a potential impact on the timing of return on infrastructure investment;
- any AGCM decisions that can limit TIM's competitive capacity (for example, in terms of minimum retail prices to guarantee replicability);
- any inadequacy in the implementation of processes and systems for the management of regulated services, identified by AGCom or AGCM;
- any AGCom or AGCM decisions that impose constraints on the pricing of fixed-line and mobile offers on the basis of consumer protection legislation.

Compliance risks

The TIM 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 TIM 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-conformances are identified and is monitored by the dedicated internal control system.

General Data Protection Regulation (GDPR)

Compliance with Commission Regulation (EU) 2016/679 (General Data Protection Regulation, GDPR), directly applicable as from May 25, 2018 and enacted in Italy by Legislative Decree no. 101/2018 is particularly important. This Regulation has increased administrative fines considerably compared to the Data Protection Act previously in effect, and in some cases fines of up to 20 million euros may be administered, or in the case of companies, of up to 4% of their global annual turnover of the previous year, if this amount is higher than 20 million euros. Starting from the operating model already in use with pre-existing Privacy regulations, the TIM Group extended the tools necessary to ensure compliance with the GDPR, also activating specific organizational oversights. In particular, a steering committee was established on compliance with the GDPR, overseen by the company's senior management and that provides guidance in pursuing the conformity objectives. The conformity assessments have been submitted to the committee, along with the results of the *ex-ante* and *ex-post* controls carried out by the Group Data Protection Officer, who operates autonomously, in accordance with segregation of duties and who is a member of the Company's Internal Control System. The Company's operative processes have been adapted according to the principle of privacy-by-design, with special attention paid to the commercial, relations with customers and technological processes, adopting the methods defined by corporate regulations dedicated to the application of the GDPR and which incorporates the directives of the Data Protection Authority. Personal data processing is subject to preventive assessment according to the indications of the European Data Protection Board (EDPB), it is censused and the related responsibilities are attributed to the suitable managerial level of the Company's organization, as envisaged by the Privacy Code in application of the accountability principle laid down by the GDPR.

Health and Safety at Work

TIM is compliant with safety at work requirements, also thanks to the definition and periodic updating of the Risk Assessment Document. TIM also has insurance cover in place to protect the company population.

As regards the management of the impacts of the COVID-19 pandemic, TIM immediately took all steps necessary to fully implement the emergency provisions issued by the government and regional authorities, in multiple tranches, to limit the virus contagion.

Weekly smart working has been extended to all professional figures able to do so, including call center operators, and specific prevention and protection protocols defined, modulated taking into account the specific nature of the work at hand, for all those needing to continue to work on-field (technicians, store operators and data center operators), equipping them with suitable Personal Protection Equipment and, in line with the legal guidance and taking into account government and health authority guidelines, in accordance with Italian Legislative Decree no. 81/2008, a specific document has been formalized dedicated to COVID-19 and setting out all personnel protection measures aimed at preventing contagion.

In addition, TIM has supported employees with dedicated initiatives, such as:

- a continuous information and awareness-raising campaign intended for all personnel;
- a health welfare campaign, of voluntary adhesion, based on serological tests aiming to verify the degree of immunity to COVID-19 by means of antibody response, intended mainly for personnel who have continued to work in the field during the emergency;
- a flu vaccine campaign, again voluntary, for all TIM Group personnel;
- psychological support from external professionals;
- specific procedures for handling any cases of ascertained or suspected positivity to COVID-19, as well as specific insurance cover for employees in the event of hospitalization following contagion with COVID-19.

Golden Power

The "Golden Power" Decrees that give the government special powers over corporate structures in the defense and national security sectors, as well as for activities of strategic importance in the telecommunications sector, affect the public-private relationship, also adding value to the technological assets and services included in the Golden Power perimeter, with content derived from the pursued institutional purpose.

In summary, the Prime Minister established that the Company is subject to the obligations pursuant to Legislative Decree no. 21/2012 (special powers rules) on September 28, 2017, as a business that:

- carries out "activities of strategic importance for the defense and national security system" (as per article 1 of the Decree Law) and
- possesses networks and systems "necessary to ensure the minimum supply and operation of essential public services" and goods and relationships "of strategic importance for the national interest" in the communications sector (as per article 2 of the same Decree Law).

The regulatory architecture relating to TIM, consequently, involved a first phase in 2017 on the issue of the Prime Ministerial Decrees of October 16 and November 2.

The government's ruling was subsequently integrated with the Law of May 20, 2019, no. 41 which included measures relating to electronic broadband communication services based on 5G technology within a wider framework of urgent measures".

With the aforementioned ruling of October 16, 2017, the Prime Minister exercised the special powers provided for in article 1 of the Golden Power Decree by imposing specific provisions and conditions on TIM and the Sparkle and Telsy subsidiaries. The measures concern corporate and organizational governance; in particular, the Prime Minister requires the presence on the respective Boards of Directors of a Security Chief Executive Officer - currently coinciding with the Chief Executive Officer - (who has Italian citizenship and security authorization) and the establishment of a Security Organization unit.

With a ruling on November 2, 2017, the Prime Minister's Office also exercised the special powers provided for in article 2 of the Golden Power Decree, through the imposition of further requirements and conditions.

With the subsequent implementing decrees of September 5, 2019 and July 6 and August 7, 2020, the Legislator imposed the exercise of special powers in relation to the supply of 5G technology produced outside the EU, stating that these communication services constitute activities of strategic importance for the National Defense and Security system.

Risks relating to legal proceedings and the Regulatory Authorities

The TIM 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 settlement unfavorable to 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.

INFORMATION FOR INVESTORS

TIM S.p.A. Share Capital at December 31, 2020

Share Capital	11,677,002,855.10 euros
Number of ordinary shares (without nominal value)	15,329,466,496
Number of savings shares (without nominal value)	6,027,791,699
Number of TIM S.p.A. ordinary treasury shares	35,179,709
Number of TIM S.p.A. ordinary shares held by Telecom Italia Finance S.A.	126,082,374
Percentage of ordinary treasury shares held by the Group to total share capital	0.76%
Market capitalization (based on December 2020 average prices)	8,458 million euros

On May 25, 2016, the Shareholders' Meeting approved amendments to the company name, introducing the name "TIM S.p.A." as an alternative to "Telecom Italia S.p.A.".

TIM S.p.A. ordinary and savings shares are listed on the Italian stock exchange (FTSE index), whereas the ordinary shares of TIM S.A. are listed in Brazil (BOVESPA index).

Code	TIM-Telecom Italia		TIM S.A.
	ordinary shares	savings shares	
Stock exchange	IT0003497168	IT0003497176	BRTIMSACNOR5
Bloomberg	TIT IM	TITR IM	TIMS3 BZ
Reuters	TLIT.MI	TLITn.MI	TIMS3.SA

Ordinary shares of TIM S.A. were also listed on the NYSE (New York Stock Exchange); share prices are set through ADS (American Depositary Shares) representing 5 ordinary shares of TIM S.A.

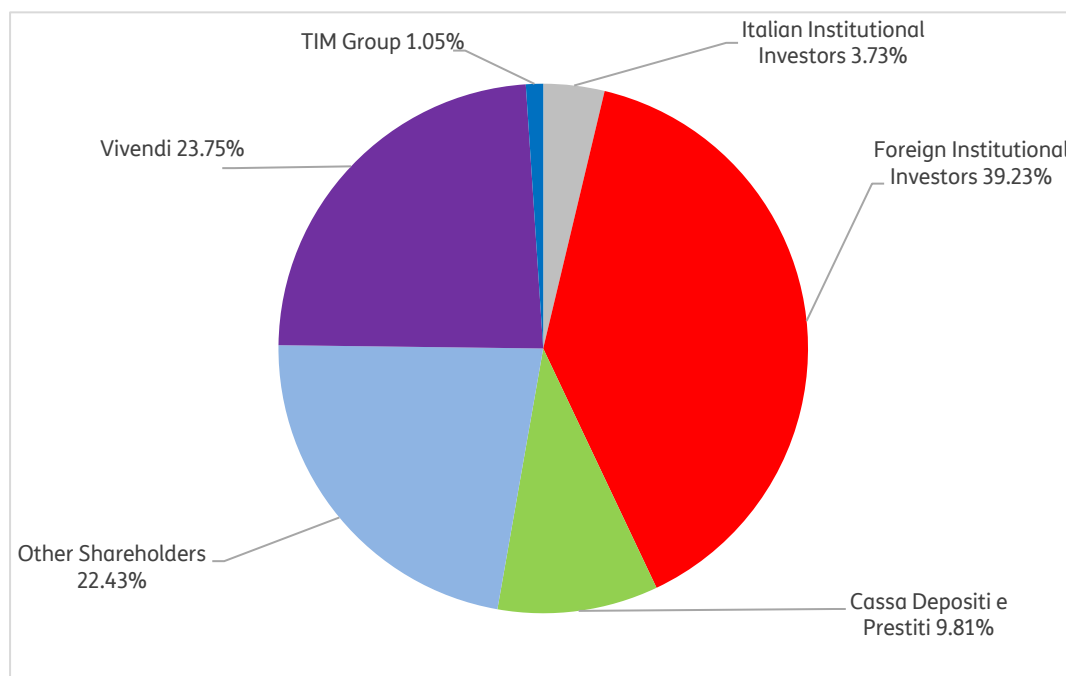
From October 8, 2019, the deregistration of TIM S.p.A. securities, previously listed on the NYSE (through ordinary and savings American Depositary Shares), took effect with the consequent end to the information obligations for TIM pursuant to U.S. Securities Exchange Act of 1934.

The operation had no consequences for the listing and trading of TIM's ordinary and savings shares on the Borsa Italiana.

The decision to delist from the NYSE was made with the aim of simplification and cost saving, without prejudice to the high standards of corporate governance, a solid internal control system and transparent economic and financial information (including the publication on the [gruppotim.it](https://www.gruppotim.it) website of the English translations of financial statements, press releases and other regulated information material).

Shareholders

Shareholder composition according to the Shareholders Book at December 31, 2020, supplemented by communications received and other available sources of information (ordinary shares):



MAJOR HOLDINGS IN SHARE CAPITAL

Taking into account the entries in the Shareholders Book, communications sent to Consob and to the Company pursuant to Italian Legislative Decree 58 of February 24, 1998, Article 120, and other available sources of information, the relevant holdings of TIM S.p.A.'s ordinary share capital are as follows¹:

Results of investments above the threshold of 3%

Holder	Type of ownership	Percentage of ownership
Vivendi S.A.	Direct	23.75%
Cassa Depositi e Prestiti S.p.A. ^(a)	Direct	9.81%
Canada Pension Plan Investment Board ^(b)	Direct	3.19%

(a) Following the evidence of attendance at the TIM Shareholders' Meeting of March 29, 2019, confirmed at the meeting of April 23, 2020, and the collection of the dividend relative to FY 2019, assigned for payment on June 24, 2020.

(b) Following the evidence of the collection of the dividend relative to FY 2019, assigned for payment on June 24, 2020.

Results of investments above the threshold of 1% and until 3%

With resolution no. 21326 of April 9, 2020 (which repealed the previous resolution no. 21304 of March 17, 2020), Consob provided, pursuant to art. 120, paragraph 2-bis, of Legislative Decree 58 of February 24, 1998, for a period

¹ The percentages refer to the total ordinary shares making up TIM's share capital, as resulting from the last deposit with the Register of Companies as at the update date. In particular, following the November 27, 2020 issue of 126,343,913 ordinary shares following the public offering for subscription in exchange for payment reserved for employees under the scope of the "2020 Broad-Based Share Ownership Plan", all ordinary shares making up the share capital of TIM come to 15,329,466,496 and this was registered with the Register of Companies on December 28, 2020.

of three months starting from April 11, 2020 – and unless revoked earlier – the additional 1% threshold, beyond which the obligation arises to communicate to the investee company and Consob, pursuant to art. 120, paragraph 2, of Legislative Decree 58 of February 24, 1998.

Consob followed this resolution with additional resolutions. By resolution no. 21434 of July 08, 2020, Consob sanctioned the provisions pursuant to resolutions nos. 21326 and 21327 of April 09, 2020 on the identification of additional thresholds of communication of corporate investments and declarations of intent in companies with a particularly broad-based ownership structure - the lists of which were updated by resolutions no. 21352 of May 06, 2020 and 21404 of June 17, 2020 - were extended for three months, from July 12, 2020 until October 12, 2020, with the deadline then having been extended until January 13, 2021 by resolution of October 07, 2020.

By resolution no. 21672 of January 13, 2021, Consob last extended this deadline for another three months, from January 14 to April 13, 2021.

As a consequence of the communications made in accordance with said resolutions passed over time, Consob has disclosed the following investments in the ordinary share capital of TIM held directly:

- Novator Capital Ltd. 2.986%, controlled by The Future Holdings Trust (*) - transaction date October 15, 2020. On the same date, the investment held by Partners Telecom Sarl, of equal entity, was zeroed. Following the increase in ordinary shares making up the share capital, as acknowledged in note (1), the percentage held drops to 2.962%.
- Bank of Italy 1.011% - transaction date September 16, 2020 (settlement date September 18, 2020). Following the increase in ordinary shares making up the share capital, as acknowledged in note (1), the percentage held drops to 1.002%.
- Norges Bank 1.053% - transaction date June 8, 2020. Following the increase in ordinary shares making up the share capital, as acknowledged in note (1), the percentage held drops to 1.045%.

(*) Irrevocable, discretion trust, regulated by the law of Guernsey and administered by BB Trustees SA, as trustee. The Settlor is Bjorgolfur Thor Bjorgolfsson; the protector is Frank Pitt. The trust beneficiaries are Bjorgolfur Thor Bjorgolfsson and children. The Trustee has full powers and no powers of intervention of beneficiaries or third parties are envisaged (additional information provided in accordance with Consob communication no. 0066209 of August 02, 2013).

Other available sources of information

Paul E. Singer last notified Consob and the Company, pursuant to Art. 120 of Italian Legislative Decree no. 58 of February 24, 1998, of having reduced, with effect from May 12, 2020, his shareholding by way of indirect ownership with voting rights in TIM to 0.136% (equivalent of 0.135% in relation to the new quantity of ordinary shares making up the share capital, as acknowledged in note (1)). In this communication, Paul E. Singer reported, pursuant to art. 119 of the Consob Issuers Regulation, a long participation through the stipulation by Elliott International L.P. and Elliott Associates L.P. of equity swap contracts with JP Morgan expiring on May 30, 2023, booking an aggregated investment of 4.998% of the ordinary share capital of TIM (equivalent to 4.956% in relation to the new quantity of ordinary shares making up the share capital, as acknowledged in note (1)).

Common Representatives

- The special meeting of the savings shareholders held on May 24, 2019 renewed the appointment of Dario Trevisan as the common representative for three financial years, up to the approval of the financial statements for the year ended December 31, 2021.
- By decree of July 3, 2020, the Milan Court appointed Antonio Franchi as the common representative of the bondholders for the loan “Telecom Italia S.p.A. 2002-2022 a Tasso Variabile, Serie Speciale Aperta, riservato in sottoscrizione al personale del Gruppo TIM, in servizio e in quiescenza” (Telecom Italia S.p.A. 2002-2022 Floating Rate bonds, Open Special series, reserved for subscription by serving or retired employees of the TIM Group). The Bondholders' Meeting, convened for the appointment of the common representative on April 16, 2020, was not quorate.

Rating at December 31, 2020

At December 31, 2020, the three rating agencies – Standard & Poor's, Moody's and Fitch Ratings – rated TIM as follows:

	Rating	Outlook
STANDARD & POOR'S	BB+	Negative
MOODY'S	Ba2	Negative
FITCH RATINGS	BB+	Stable

Waiver of the obligation to publish disclosure documents for extraordinary transactions

On January 17, 2013, the Board of Directors of TIM S.p.A. resolved to exercise the option, as per article 70 paragraph 8 and article 71 paragraph 1-bis of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

Conditions for the listing of shares of parent companies established and regulated by the law of states outside the European Union

TIM S.p.A. confirms the existence as at December 31, 2020 of the conditions referred to in article 15, paragraph 1, letter a), b) and c), point i) of Consob Regulation no. 20249/2017 as amended, for the listing of their shares on regulated markets.

RELATED-PARTY TRANSACTIONS

In accordance with Article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning "Related-party transactions" and the subsequent Consob Resolution 19974 of April 27, 2017, no significant transactions were conducted in 2020, as defined by Article 4, paragraph 1a of the aforementioned regulation, that had a material impact on the financial position or the performance of the TIM Group and TIM S.p.A. in 2020.

In addition, there were no changes or developments with respect to the related party transactions described in the 2019 Report on Operations which had a significant effect on the financial position or on the performance of the TIM Group and TIM S.p.A. in 2020.

Related-party transactions, when not dictated by specific laws, were conducted at arm's length. They were performed in compliance with the internal procedure, which sets forth rules designed to ensure the transparency and fairness of the transactions in accordance with Consob Regulation 17221/2010. The current procedure is available on the website [gruppotim.it](https://www.gruppotim.it), under the Group section/Governance System channel.

For information on relationships with related parties, see the Financial Statement Formats and the "Related party transactions" Notes of Consolidated Financial Statements and the Separate Financial Statements.

ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in the TIM Group Consolidated Financial Statements and in the Separate Financial Statements of the Parent, TIM S.p.A., for the year ended December 31, 2020, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the TIM Group performance of operations and financial position. Such measures, which are presented in the periodical financial reports (annual and interim), should, however, not be considered as a substitute for those required by IFRS.

In particular, following the adoption of IFRS 16, the TIM Group also 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, from the amounts connected with the accounting treatment of the lease contracts according to IFRS 16. This financial measure is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) and of the Parent, TIM S.p.A., in addition to EBIT;
- **Adjusted net financial debt After Lease**, calculated by excluding from the adjusted net financial debt the net liabilities related to the accounting treatment of lease contracts according to IFRS 16. TIM believes that the Adjusted net financial debt After Lease represents an indicator of the ability to meet its financial obligations;
- **Equity Free Cash Flow After Lease**, calculated by excluding from the Equity Free Cash Flow the amounts related to lease payments. In particular, this measure is calculated as follows:

+	Equity Free Cash Flow
-	Principal share of lease charges

This financial measure is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors) and is a useful indicator of the ability to generate Free Cash Flow.

The other alternative performance measures used are described below:

- **EBITDA**: this financial measure is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) and of the Parent, TIM S.p.A., in addition to **EBIT**. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments (1)
+/-	Share of profits (losses) of associates and joint ventures accounted for using the equity method (2)
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 before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets	

(1) “Expenses (income) from investments” for TIM S.p.A..

(2) Line item in Group consolidated financial statements only.

- **Organic change and impact of the non-recurring items on revenues, EBITDA and EBIT:** these measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, the exchange differences and the non-recurring events and transactions. TIM believes that this method of presentation provides a more complete and effective interpretation of the Group's operating performance (as a whole and with reference to the Business Units) and of the Parent; it is therefore also used in the presentations to analysts and investors. This Report on Operations provides a reconciliation between the "reported figure" and the "organic excluding the non-recurring component" figure.
- **EBITDA margin and EBIT margin:** TIM believes that these margins represent useful indicators of the ability of the Group, as a whole and at Business Unit level, and of the Parent to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analyzing the percentage of revenues that are converted into EBITDA and EBIT, respectively. Such indicators are used by TIM in internal presentations (business plans) and in external presentations (to analysts and investors) in order to illustrate the results from operations also through the comparison of the operating results of the financial year being reported with those of the previous years.
- **Net financial debt:** TIM believes that the 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 Report on Operations includes two tables showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group and Parent.

To provide a better representation of the true performance of Net Financial Debt, in addition to the usual indicator (renamed "Net financial debt carrying amount"), the TIM Group reports a measure called "Adjusted net financial debt", which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and of derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects of IFRS 13 – Fair Value Measurement) from the measurement of derivatives and related financial assets/liabilities.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	Gross financial debt
+	Non-current financial assets
+	Current financial assets
+	Financial assets relating to Discontinued operations/Non-current assets held for sale
B)	Financial assets
C=(A - B)	Net financial debt carrying amount
D)	Reversal of fair value measurement of derivatives and related financial liabilities/assets
E=(C +D)	Adjusted net financial debt

- **Equity Free Cash Flow (EFCF):** this financial measure is used by TIM as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), shows cash generation and is intended as the net cash flow before payments relating to dividend and investments in frequencies. Therefore, it represents the Free Cash Flow available for dividend payments, debt repayment, impacts of leasing transactions and investment in frequencies. This measure excludes the financial impact of any acquisition and/or disposal of equity investments.

The Equity Free Cash Flow measure is calculated as follows:

+	Operating Net Free Cash Flow
-	Impact for leasing
-	Payment of licenses
-	Financial impact of acquisitions and/or disposals of shareholdings
-	Dividend payment and Change in Equity

REVIEW OF KEY OPERATING AND FINANCIAL DATA - TIM S.p.A.

Main changes in the corporate structure

The main changes in the corporate structure made during 2020 are reported in this section.

INFRASTRUTTURE WIRELESS ITALIANE S.p.A. - INWIT S.p.A.

With reference to INWIT S.p.A., on March 31, 2020, the merger through absorption of Vodafone Towers S.r.l. with INWIT S.p.A. was completed.

Also:

- on April 23, 2020, a package of shares, equal to 4.3% of the share capital of INWIT, were sold in an accelerated book-building procedure reserved for institutional investors;
- on October 02, 2020, TIM and Ardian, a world leading private investment firm operating in infrastructures, completed the agreement announced on June 24, 2020 for a partial sharing of the investment in INWIT S.p.A. The operation entailed the purchase by a consortium of institutional investors led by Ardian of 49% of Daphne 3 S.p.A., a newly-established holding company controlled by TIM, to which TIM contributed 30.2% of the shares of INWIT. The holding company took over from TIM - for the portion of INWIT shares transferred - in the shareholders' agreement stipulated between TIM and Vodafone Europe B.V., by virtue of which, they jointly control INWIT;
- the residual direct equity investment held by TIM S.p.A. in INWIT, equal to 3% of the share capital, of INWIT, has been sold to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited. More specifically, on October 2, 2020, 1.2% was first sold and then on December 4, 2020, the remaining 1.8%.

Following the 2020 transactions, TIM S.p.A. has indirect control over INWIT through the subsidiary Daphne 3 S.p.A.

Acquisition of the control of Noovle S.r.l.

On May 21, 2020, TIM S.p.A. finalized the acquisition of 100% of the shares in Noovle S.r.l., an Italian ICT consulting and system integration company, specialized in supplying cloud solutions and projects and one of Google Cloud's leading partners on the Italian market.

The transaction enables TIM to expand its offering of innovative public, private and hybrid cloud services, and consolidate expertise to accelerate the digitalization of companies, from SMEs to large industries, the public administration and health sector.

Partial demerger of the “Digital School” BU from the company Olivetti S.p.A. in the favor of TIM S.p.A.,

The transaction took place with statutory and tax effects from December 1, 2020.

Merger by incorporation of TN Fiber S.r.l., TIM Vision S.r.l. and HR Services S.r.l. into TIM S.p.A

The mergers took place respectively on September 30, 2020, on October 1, 2020 and on December 31, 2020; all transactions have their tax and accounting effects backdated to January 1, 2020.

The table below reports the effects of corporate operations indicated on the financial position of TIM S.p.A. at January 1, 2020:

(million euros)	TIM S.p.A. 1.1.2020	TN Fiber S.r.l. 1.1.2020	TIM Vision S.r.l. 1.1.2020	HR Services S.r.l. 1.1.2020	Merger adjustments	TIM S.p.A. post-merger 1.1.2020
Assets						
Non-current assets	57,494	24	13	3	(53)	57,481
Intangible assets	30,159	—	13	1	—	30,173
Tangible assets	10,591	4		1	—	10,596
Rights of use assets	4,906	17			(11)	4,912
Other non-current assets	11,838	3	—	1	(42)	11,800
Current assets	5,786	28	6	33	(83)	5,770
Total assets	63,280	52	19	36	(136)	63,251
Liabilities						
Equity	18,174	38	1	12	(39)	18,186
Non-current liabilities	34,793	13	—	12	(11)	34,807
Current liabilities	10,313	1	18	12	(86)	10,258
Total Liabilities and Equity	63,280	52	19	36	(136)	63,251

Non-recurring events

In 2020 and 2019, TIM S.p.A. recognized **net non-recurring operating expenses** connected with events and transactions that by their nature do not recur as part of continuing operations, which are reported when their amount is material. Non-recurring charges include, among others, any goodwill impairment changes, provisions for regulatory disputes and potential liabilities related to them, liabilities with customers and/or suppliers, and charges associated with corporate reorganization/restructuring and prior-year adjustments.

In detail:

(million euros)	2020	2019
Non-recurring expenses/(income)		
Revenues	39	15
Revenue adjustments	39	15
Other operating income	—	(21)
Recovery of operating expenses	—	(21)
Acquisition of goods and services and Change in inventories	58	14
Expenses related to agreements and the development of non-recurring	58	14
Employee benefits expenses	69	248
Charges connected to corporate reorganization/restructuring and other	69	248
Other operating expenses	145	412
Other charges and provisions	145	412
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets	311	668
Impact on EBIT - Operating profit (loss)	311	668

Non-recurring events for the year 2020 included, in particular:

- 39 million euros in adjustment to revenues, of which 38 million euros related to discounts consequent to the initiatives of TIM S.p.A. in support of customers to deal with the COVID-19 emergency;
- 58 million euros in expenses related to agreements and the development of non-recurring projects as well as costs for purchases relating to procurement made necessary to address the health emergency;
- 69 million euros, connected mainly with corporate reorganization/restructuring processes and other costs;
- 145 million euros in operating costs, mainly referring to provisions made and expenses connected with credit management deriving from the deterioration of the macroeconomic context following the COVID-19

emergency, expenses for regulatory sanctions and expenses connected with agreements and the development of non-recurring projects.

Non-recurring expenses in 2019 mainly included revenue adjustments of previous years (15 million euros), other income for 21 million euros, connected with the recognition of the receivable for the reimbursement of the fine relating to the Antitrust proceeding I761, expenses connected with corporate restructuring processes (248 million euros) and other expense mainly referring to provisions made for disputes and litigation (412 million euros).

Operating Performance

(million euros)	2020	2019	% Change organic excluding non-recurring	
	(a)	(b)	(a-b)	
Revenues	12,030	13,137	(8.4)	(8.2)
EBITDA (1)	5,180	5,482	(5.5)	(10.7)
EBITDA Margin (1)	43.1 %	41.7 %	1.4 pp	
Organic EBITDA excluding non-recurring (1)	5,491	6,150		(10.7)
Organic EBITDA Margin excluding non-recurring (1)	45.5 %	46.8 %		(1.3)pp
EBITDA adjusted After Lease (1)	4,892	5,326		(8.1)
EBIT (1)	1,576	1,722	(8.5)	(21.0)
EBIT Margin (1)	13.1 %	13.1 %	— pp	
Organic EBIT Margin excluding non-recurring (1)	15.6 %	18.2 %		(2.6)pp
Profit (loss) for the year	7,161	382	—	—
Capital expenditures	2,485	2,537	(2.0)	
	12.31.2020	12.31.2019	Change Amount	
	(a)	(b)	(a-b)	
Net financial debt (1)	27,324	31,283	(3,959)	
Adjusted net financial debt (1)	25,783	29,740	(3,957)	
Adjusted Net Financial Debt After Lease (1)	21,875	25,084	(3,209)	
Headcount at year end (number)	38,178	40,237	(2,059)	

(1) Details are provided under "Alternative Performance Measures".

Revenues

2020 revenues totaled 12,030 million euros (13,137 million euros in 2019), with a decrease of 1,107 million euros, equal to -8.4%. Revenues for the financial year include 39 million euros relating to non-recurring revenues, of which 38 million euros connected to the commercial initiatives of TIM S.p.A. to support customers to deal with the COVID-19 emergency; 2019 was affected by non-recurring charges of 15 million euros relating to adjustments to revenues from previous years.

Revenues from Stand-Alone Services amounted to 10,759 million euros (-915 million euros compared to 2019, equal to 7.8%) and are affected by the regulatory and competitive scenario, and by the restrictions connected with the health emergency. In particular, revenues from Fixed market Stand-alone services fell (-581 million euros, -6.8% compared to the previous year), as did revenues from Mobile market Stand-alone services (-360 million euros, -9.7% compared to previous year).

Handset and Bundle & Handset revenues, including changes to work in progress, amounted to 1,271 million euros in 2020, down 192 million euros on 2019, also due to the lower footfall for sales outlets following the restrictive measures implemented to handle the COVID-19 emergency.

The sales segments show the following changes compared to 2019:

(million euros)	2020	2019	Changes
Revenues	12,030	13,137	(1,107)
Consumer	5,892	6,574	(682)
Business	3,953	4,455	(502)
Wholesale	1,910	1,836	74
Other	275	272	3

In particular:

- **Consumer:** 2020 revenues of the Consumer segment totaled 5,892 million euros and decreased by 682 million euros on 2019 (-10.4%), suffering the impact of the competitive context and greater regulation of commercial processes. The trend seen in total revenues also applied to revenues from stand-alone services, which amounted to 5,172 million euros, down by 628 million euros (-10.8% compared to the previous year). In particular:
 - **Revenues for Mobile segment stand-alone services** were equal to 2,334 million euros, down 235 million euros (-9.2%) compared to 2019, mainly due to the regulatory context, the competition and the restrictions imposed by the health emergency;
 - **revenues from Fixed Stand-alone services** amounted to 2,871 million euros, down on 2019 (-382 million euros, -11.7%), mainly due to the reduction in ARPU levels and the lesser Customer Base.

Revenues for Handsets and Bundles & Handsets in the Consumer segment amounted to 720 million euros, down 54 million euros compared to 2019 (-7.1%), and reflected – especially in the mobile sector – the change in business strategy on products to protect margins and the restrictions to travel connected with the COVID-19 emergency.

- **Business:** revenues for the Business segment amounted to 3,953 million euros, down by 502 million euros on 2019 (-11.3%, of which -9.3% for revenues from the stand-alone services component). In particular:
 - **Total mobile revenues** in 2020 amounted to 911 million euros with a decrease (-151 million euros compared to 2019, -14.3%) which in particular reflects the lower revenues from stand-alone services (-14.4%) following a reduction in ARPU levels;
 - **Total Fixed revenues** in 2020 amounted to 3,102 million euros, down 352 million euros on last year (-10.2%), with a reduction in stand-alone service revenues (-7.5%) impacted by a price performance that was partially offset by the increase in ICT service revenues.
- **Wholesale Market:** National Wholesale segment revenues in 2020 came to 1,910 million euros, up by 74 million euros (+4.0%) compared to 2019, driven mainly by the growth in accesses in the Ultra Broadband segment.

EBITDA

EBITDA in 2020 amounted to 5,180 million euros (5,482 million euros in 2019), with an EBITDA margin of 43.1% (41.7% in 2019), up 1.4 percentage points.

Organic EBITDA - net of the non-recurring items amounted to 5,491 million euros; the EBITDA margin was 45.5% (46.8% in 2019) and records a reduction of 659 million euros on last year. Performance was impacted by the launch on March 31, 2020 of the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A., now jointly controlled by TIM-Vodafone, regulating hosting services on INWIT sites. The new MSA provides for accounting for the amounts in costs for services on an accrual basis, with the exception of the 3,500 strategic sites, which are accounted for as leases under IFRS 16, for a duration of 8 years, given that control of those strategic sites still belongs to TIM S.p.A. For lack of this impact, organic EBITDA net of the non-recurring component would have recorded a reduction on 2019 of approximately 470 million euros.

In 2020 TIM S.p.A. recorded net non-recurring expenses for a total of 311 million euros, of which 106 million euros due to the COVID-19 emergency in Italy. Further details are provided in the Note “Significant non-recurring events and transactions” of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

In 2019, TIM S.p.A. recognized non-recurring charges of the Domestic and Brazil Business Units, totaling 668 million euros, mainly relating to provisions for regulatory disputes and potential related liabilities, to liabilities with customers and/or suppliers and to charges related to corporate reorganization/restructuring as well as to the aforementioned adjustments to revenues from previous years;

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

(million euros)	2020	2019	Absolute changes		%
EBITDA	5,180	5,482	(302)		(5.5)
Non-recurring expenses (Income)	311	668	(357)		
ORGANIC EBITDA - excluding Non-recurring items	5,491	6,150	(659)		(10.7)

The following elements also affected EBITDA:

■ Other operating income

(million euros)	2020	2019	Changes
Late payment fees charged for telephone services	40	48	(8)
Recovery of employee benefits expenses, purchases and services rendered	16	37	(21)
Capital and operating grants	31	27	4
Damages, penalties and recoveries connected with litigation	17	17	—
Estimate revisions and other adjustments	59	36	23
Other	26	33	(7)
Total	189	198	(9)

■ Acquisition of goods and services

(million euros)	2020	2019	Changes
Acquisition of goods	926	1,076	(150)
Revenues due to other TLC operators and costs for telecommunications network access services	692	693	(1)
Commercial and advertising costs	957	926	31
Professional and consulting services	114	86	28
Power, maintenance and outsourced services	1,018	1,060	(42)
Lease and rental costs	306	258	48
Other	598	497	101
Total acquisition of goods and services	4,611	4,596	15
<i>% of Revenues</i>	<i>38.3</i>	<i>35.0</i>	<i>3.3 pp</i>

These are up 15 million euros on 2019 and suffer the impact consequent to said start-up of the new Master Service Agreement (MSA) with INWIT S.p.A. For lack of this impact, purchases of materials and services would have recorded a reduction on 2019 of approximately 170 million euros, above all on purchases for resale, as a result of the reduction in volumes sold of mobile terminals, in line with the repositioning of the commercial strategies currently in progress. The reduction was also affected by restrictions related to the COVID-19 emergency, especially in the mobile area.

■ Employee benefits expenses

(million euros)	2020	2019	Changes
Ordinary employee expenses and costs	2,124	2,244	(120)
Restructuring expenses and allocations to employee and other provisions	69	248	(179)
Total Employee benefits expenses	2,193	2,492	(299)

Employee benefits expenses decreased by 299 million euros compared to 2019. The main factors that drove this change were:

- reduction of 120 million euros of ordinary employee costs, mainly due to benefits related to the reduction of the average salaried workforce, equal to a total of -2,191 employees on average. Following the mergers of TN Fiber and HR Services in TIM S.p.A., which took place respectively on September 30, 2020 and December 31, 2020, an average total of 340 employees were acquired;
- reduction of 179 million euros in corporate restructuring expenses, relating to expenses and provisions made under the scope of the corporate restructuring plan.

The headcount at December 31, 2020 amounted to 38,516 employees, a decrease of 1,721 compared to December 31, 2019 (40,237).

■ Other operating expenses

(million euros)	2020	2019	Changes
Write-downs and expenses in connection with credit	328	402	(74)
Provision charges	1	414	(413)
TLC operating fees and charges	42	43	(1)
Indirect duties and taxes	53	63	(10)
Penalties, settlement compensation and administrative fines	120	64	56
Association dues and fees, donations, scholarships and	10	10	—
Other	51	65	(14)
Total	605	1,061	(456)

Other operating expenses for 2020 include a non-recurring item of 145 million euros, referred to provisions and expenses mainly connected with credit management in connection with the COVID-19 emergency (46 million euros), charges for regulatory sanctions and expenses related to agreements and the development of non-recurring projects. In particular, in relation to credit management, it is noted that the macroeconomic scenario with a sharp reduction in GDP caused by the pandemic worsened the Expected Credit Loss of some of the customers. Consequently, the provision for bad debt was adjusted according to the expected loss differential. With reference to the impairment and expenses connected with credit management, we note that the reduction is the consequence of a program to optimize processes aimed at increasing the efficiency of credit management, all round, intervening on the whole process involving the customer. More specifically, reference is made to the acceptance, management and collection of debt through to the assessment model of the new commercial offers.

The non-recurring component of 2019, amounting to 412 million euros, mainly referred to regulatory disputes and related liabilities and to liabilities with customers and/or suppliers.

Depreciation, amortization and capital expenditures

2020 **amortization and depreciation** came to 3,582 million euros (3,719 million euros in 2019) and are as follows:

(million euros)	2020	2019	Changes
Amortization of intangible assets with a finite useful life	1,290	1,222	68
Depreciation of tangible assets and rights of use assets	2,292	2,497	(205)
Total	3,582	3,719	(137)

Specifically, **amortization of intangible assets** increased by 68 million euros mainly following the start of software systems and service creation projects.

Depreciation of tangible assets owned dropped by 68 million euros following the lesser investments on various items including, in particular, subscriber connection units and SL self-switches, UMTS plants and LTE transmission plants and UMTS RMC systems.

Depreciation of rights of use assets dropped by 137 million euros, determined by a reduction of 164 million euros on property lease contracts and 3 million euros on other leased assets, partially offset by an increase of 30 million euros on rights of use for leased plant and equipment, due to investments connected with the acquisition of IRU transmission capacity.

Capex totaled 2,485 million euros (equal to 2,537 million euros in 2019), with a decrease of 52 million euros. Details are as follows:

(million euros)	2020	2019	Changes
Investments in intangible assets with a finite useful life	959	819	140
Investments in tangible assets and rights of use assets	1,526	1,718	(192)
Total	2,485	2537	(52)

Specifically, the reduction noted in investments in tangible assets and rights of use of third party assets, equal to 192 million euros, is mainly due to lesser investments in tangible assets, as described above.

Investments in intangible assets record an increase of 140 million euros consequent, amongst others, to a different composition of investments dedicated to the development of the Core Network, characterized by a technological evolution that is increasingly focused on automation and digitization, with accordingly greater intangible investments.

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

The item is negative for 14 million euros (negative for 41 million euros in 2019), mainly due to capital losses from disposals of rights of use contracts for 44 million euros, partially offset by capital gains on disposals of rights of use for 30 million euros, following the renegotiation of lease contracts and, in particular, the derecognition of the rights of use connected with the previous lease contracts stipulated with INWIT.

Impairment reversals (losses) on non-current assets

The item shows losses of 8 million euros (none in 2019), mainly following the provisions made for inventory differences for plant warehouse materials held at external company sites.

In preparing the Annual Report for 2020, TIM S.p.A. carried out an impairment test on the goodwill. The results of that testing, carried out in accordance with the specific procedure adopted by the TIM Group, confirmed the amounts of Goodwill. Further details are provided in the Note "Goodwill" in the Separate Financial Statements of TIM S.p.A. at December 31, 2020.

EBIT

2020 EBIT is 1,576 million euros (1,722 million euros in 2019), down 146 million euros on the previous year, with an EBIT margin of 13.1% (13.1% in 2019).

Organic EBIT, net of the non-recurring component, amounted to 1,887 million euros (2,390 million euros in 2019), with an EBIT margin of 15.6% (18.2% in 2019) and suffers the effect of the same dynamics already reported for EBITDA. In detail, in 2020, TIM S.p.A. recorded net non-recurring expenses for a total of 311 million euros; 2019 EBIT suffered the negative impact of non-recurring expenses for 668 million euros.

Further details on non-recurring items are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

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

(million euros)	2020	2019	Changes	
			absolute	%
EBIT	1,576	1,722	(146)	(8.5)
Non-recurring expenses (Income)	311	668	(357)	
ORGANIC EBIT - excluding Non-recurring items	1,887	2,390	(503)	(21.0)

Income (expenses) from investments

This item, amounting to 551 million euros (117 million euros in 2019), is broken down as follows:

(million euros)	2020	2019	Changes
Dividends	331	141	190
Other income and gains on disposals of investments	227	35	192
Losses on disposals of investments	—	(26)	26
Impairment losses on financial assets	(7)	(28)	21
Sundry expenses from investments	—	(5)	5
Total	551	117	434

In particular, we report:

- dividends mainly referred to the subsidiary TI Finance (75 million euros) and the associate INWIT S.p.A. (256 million euros). In 2019, dividends mainly referred to the then subsidiary INWIT S.p.A. (76 million euros) and the subsidiaries TI Finance (53 million euros) and Persidera (10 million euros);
- net capital gains - of 227 million euros - are mainly related to the 2020 sales of INWIT shares; more specifically, they refer:
 - 51 million euros to the transfer made on April 23, 2020, of a package of shares equal to 4.3% of the share capital of INWIT, through an accelerated book-building procedure reserved for institutional investors;
 - 144 million euros to the sale made on October 02, 2020 to Daphne 3 S.p.A. of 142,090,396 INWIT shares, representing 14.80% of INWIT's share capital;
 - 13 million euros to the transfer by TIM to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited of an investment in INWIT equal to approximately 1.2% of the related share capital (corresponding to 11,522,400 INWIT shares), again on October 2, 2020;
 - 19 million euros to the transfer by TIM to the same SPV of an additional share in INWIT equal to 1.8% of its share capital (corresponding to 17,030,535 shares) following the December 2020 exercise of the relevant purchase option.
- impairment losses referred to the impairment of investment in the subsidiary Olivetti. In 2019, impairment losses mainly referred to the write-down of the investments held in the subsidiary Olivetti (18 million euros), Tim Tank (3 million euros), Timvision (2 million euros), Tn Fiber (1 million euros), as well as in the associate Tiglio I (4 million euros).

Finance income (expenses), net

Finance income (expenses) show a net expense of 961 million euros (negative for 1,267 million euros in 2019), which breaks down as follows:

(million euros)	2020	2019	Changes
Finance income	1,012	1,195	(183)
Finance expenses	(1,973)	(2,462)	489
Total net financial income (expenses)	(961)	(1,267)	306

The positive change mainly derives from the lower finance expenses connected to the reduction in interest rate levels and also benefits from the positive effects of changes in certain currency and accounting non-monetary items relating to the measurement of derivative instruments at fair value.

Income tax expense

In 2020, tax income is recorded for 5,995 million euros (tax for 190 million euros in 2019). Tax proceeds mainly relate to the recording of deferred tax assets as a consequence of the tax recognition of higher amounts booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis (5,877 million euros). Further details are provided in the Note “Income tax (current and deferred)” of the Financial Statements at December 31, 2020 of TIM S.p.A.

They also benefited from the positive tax effect due to the lower taxes paid in previous years and generated following the ruling signed on August 3, 2020 with the Italian Revenues Agency for application of the “patent box” facilitation in income tax and IRAP (regional production tax) tax returns for TIM S.p.A. for the years 2015 - 2019 (299 million euros).

Profit (loss) for the year

The profit for 2020 was positive in the amount of 7,161 million euros (profit of 382 million euros in 2019) and benefits from the positive effect of net non-recurring income for 5,831 million euros.

In comparable terms, the FY 2020 result would be positive by approximately 1.3 billion euros, up by approximately 0.4 billion euros on FY 2019.

Financial Position and Cash Flows Performance

Financial position structure

(million euros)	12.31.2020	12.31.2019	Changes
Assets			
Non-current assets	61,804	57,494	4,310
<i>Goodwill</i>	23,051	24,341	(1,290)
<i>Other intangible assets</i>	5,500	5,818	(318)
<i>Tangible assets</i>	10,335	10,591	(256)
<i>Rights of use assets</i>	4,096	4,906	(810)
<i>Other non-current assets</i>	11,485	10,956	529
<i>Deferred tax assets</i>	7,337	882	6,455
Current assets	5,567	5,786	(219)
<i>Inventories, trade and miscellaneous receivables and other current assets</i>	3,608	3,886	(278)
<i>Current income tax receivables</i>	39	67	(28)
<i>Current financial assets</i>	1,920	1,005	915
	67,371	63,280	4,091
Equity and Liabilities			
Equity	25,008	18,174	6,834
Non-current liabilities	32,717	34,793	(2,076)
Current liabilities	9,646	10,313	(667)
	67,371	63,280	4,091

Non-current assets

- **Goodwill:** this reduces by 1,290 million euros on December 31, 2019, following the specified sales of INWIT shares between April and December 2020;
- **Other intangible assets:** these fell by 318 million euros, from 5,818 million euros at the end of 2019 to 5,500 million euros at December 31, 2020, representing the balance of the following items:
 - capex (+959 million euros);
 - Amortization charge for the year (-1,290 million euros);
 - disposals, reclassifications and other changes (+13 million euros).
- **Tangible assets:** decreased by 256 million euros, representing the sum of the following:
 - capex (+1,468 million euros);
 - Amortization charge for the year (-1,750 million euros);
 - disposals, reclassifications and other changes (+26 million euros).
- **Right of use assets:** decreased by 810 euros, representing the sum of the following:
 - investments and increases in lease contracts (+947 million euros). Increases in lease contracts include 368 million euros, related to the recognition of new rights of use of INWIT S.p.A. assets, following the coming into effect on March 31, 2020 of the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A. (now jointly controlled), which regulates hospitality services on INWIT sites;
 - Amortization charge for the year (-542 million euros);
 - disposals, reclassifications and other changes (-1,215 million euros). These include the impacts connected with the derecognition of the rights of use connected with the previous lease contracts stipulated with INWIT (777 million euros) and with Vodafone (266 million euros), following the effectiveness of the new Master Service Agreement (MSA) stipulated between TIM S.p.A. and INWIT S.p.A.
- **Deferred tax assets:** increased by 6,455 million euros mainly due to the booking of deferred tax assets following the tax recognition of higher values booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis (6,569 million euros).

Equity

Equity amounted to 25,008 million euros, up by 6,834 million euros compared to December 31, 2019 (18,174 million euros). The changes in equity over 2020 and 2019 are detailed in the following table:

(million euros)	12.31.2020	12.31.2019
At the beginning of the year	18,174	18,138
Profit (loss) for the year	7,161	382
Dividends approved	(317)	(166)
Merger of Noverca S.r.l. into TIM S.p.A.	—	1
Merger of HR Services S.r.l. into TIM S.p.A.	12	—
Broad-Based Share Ownership Plan 2020	44	—
Issue of equity instruments and other changes	5	3
Movements in the reserve for financial assets measured at fair value through other comprehensive income and derivative hedging instruments	(75)	(154)
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	4	(30)
At the end of the year	25,008	18,174

Cash flows

Change in net financial debt

(million euros)	2020	2019	Changes
EBITDA	5,180	5,482	(302)
Capital expenditures on an accrual basis	(2,485)	(2,537)	52
Change in net operating working capital:	591	337	254
Change in inventories	12	107	(95)
Change in trade receivables and other net receivables	217	107	110
Change in trade payables	287	128	159
Change in payables for mobile telephone licenses	(110)	(18)	(92)
Other changes in operating receivables/payables	185	13	172
Change in provisions for employee benefits	(611)	(260)	(351)
Change in operating provisions and Other changes	(122)	183	(305)
Net operating free cash flow	2,553	3,205	(652)
<i>of which operating free cash flow connected with the purchase of mobile telephone licenses</i>	<i>(110)</i>	<i>(18)</i>	<i>(92)</i>
<i>% of Revenues</i>	<i>21.2</i>	<i>24.4</i>	<i>(3.2)</i>
Sale of investments and other disposals flow	1,822	154	1,668
Financial investments	(101)	(43)	(58)
Dividends flow	14	(26)	40
Increases in finance leasing contracts	(889)	(861)	(28)
Share capital increases/reimbursements	8	—	8
Finance expenses, income taxes and other net non-operating requirements flow	552	(1,412)	1,964
Net impact of the application of IFRS 16 at 1/1/2019	—	(2,940)	2,940
Reduction/(Increase) in net financial debt	3,959	(1,923)	5,882

Equity Free Cash Flow

(million euros)	2020	2019	Changes
NET OPERATING FREE CASH FLOW	2,553	3,205	(652)
Mobile licenses acquisition/spectrum	110	18	92
Financial management	(1,033)	(1,211)	178
Income taxes and other	430	216	214
EQUITY FREE CASH FLOW	2,060	2,228	(168)

The reduction in net operating free cash flow in 2020 as compared with 2019 (-652 million euros) is mainly connected with the reduction recorded by the EBITDA (-302 million euros), the change in provisions for employee benefits (-351 million euros) and the change in operating provisions and other changes (-305 million euros), partially offset by the dynamics of the current assets (+254 million euros), in particular trade receivables and payables and the lesser need for investments (+52 million euros).

In addition to what has already been described with reference to EBITDA, the change in net financial debt in 2020 was particularly impacted by the following:

Capex flow

Capex totals 2,485 million euros (2,537 million euros in 2019), down 52 million euros, mainly determined by lesser investments in tangible assets and rights of use on leased assets (-192 million euros), offset by greater investments in intangible assets (+140 million euros).

Sale of investments and other disposals flow

Positive for 1,822 million euros and refers for 1,816 million euros to the collection from the specified transactions regarding INWIT. In 2019, this was positive for 154 million euros and referred for 142 million euros to the collection from the sale of ownership interest in the subsidiary Persidera S.p.A.

Financial investments flow

Amounted to 101 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Olivetti (25 million euros), Flash Fiber (48 million euros), Tim Tank (6 million euros), Telsy (5 million euros) and the purchase of the investment in the subsidiary Noovle Srl and Noovle S.p.A. (13 million euros) and in the associate Tim Fin (3 million euros). In 2019, it amounted to 43 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Flash Fiber (39 million euros) and Tim Tank (3 million euros).

Increases in finance leasing contracts

This item amounts to 889 million euros (861 million euros in 2019).

Increases in finance leasing contracts include the higher value of user rights entered following new lease contracts payables, increase of lease payments and renegotiations of existing contracts. In particular, this includes 368 million euros, related to the recognition of new rights of use of INWIT S.p.A. assets, following the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A. coming into effect on March 31, 2020.

Share capital increases/reimbursements, including incidental costs

These total 8 million euros and derive from the issue of ordinary shares to service the 2020 Broad-Based Share Ownership Plan subscribed by employees of the TIM Group companies and employees of TIM S.p.A., for the shares subscribed without using severance indemnity (bank transfer or loan).

Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment of income taxes, net finance expenses, and the change in non-operating receivables and payables.

Sales of receivables to factoring companies

Sales of trade receivables to factoring companies completed during 2020 resulted in a positive effect on the net financial debt at December 31, 2020 amounting to 1,919 million euros (1,818 million euros at December 31, 2019).

Following the request made by TIM S.p.A. for the Patent box benefit for the five-year period 2015-2019 and the consequent agreement reached with the Revenue Agency for 2015 and that relating to complementary assets for 2016-2019, the benefit of the tax periods 2015 and 2016 was cumulatively included in the IRES and IRAP adjustment declarations for 2016, presented on September 25, 2020, while the benefit for the tax periods 2017 and 2018 was used in the IRES and IRAP declarations for the tax period 2019 sent on December 10, 2020. In particular, as regards the IRES, the greater 2016 credit of 123 million euros and the 2019 credit of 180 million euros were requested as refund from the Revenue Agency in the related declarations and then transferred and collected respectively on September 30, 2020 and December 21, 2020.

FINANCIAL STATEMENTS– TIM S.p.A.

Separate Income Statements

(million euros)	2020	2019	Change (a-b)	
	(a)	(b)	amount	%
Revenues	12,030	13,137	(1,107)	(8.4)
Other income	189	198	(9)	(4.5)
Total operating revenues and other income	12,219	13,335	(1,116)	(8.4)
Acquisition of goods and services	(4,611)	(4,596)	(15)	(0.3)
Employee benefits expenses	(2,193)	(2,492)	299	12.0
Other operating expenses	(605)	(1,061)	456	43.0
Change in inventories	(11)	(107)	96	89.7
Internally generated assets	381	403	(22)	(5.5)
Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,180	5,482	(302)	(5.5)
Depreciation and amortization	(3,582)	(3,719)	137	3.7
Gains/(losses) on disposals of non-current assets	(14)	(41)	27	65.9
Impairment reversals (losses) on non-current assets	(8)	—	(8)	-
Operating profit (loss) (EBIT)	1,576	1,722	(146)	(8.5)
Income (expenses) from investments	551	117	434	—
Finance income	1,012	1,195	(183)	(15.3)
Finance expenses	(1,973)	(2,462)	489	19.9
Profit (loss) before tax	1,166	572	594	—
Income tax expense	5,995	(190)	6,185	—
Profit (loss) for the year	7,161	382	6,779	—

Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), the following Statements of Comprehensive Income include the Profit (loss) for the year as shown in the Separate Income Statements and all non-owner changes in equity.

(million euros)		2020	2019
Profit (loss) for the year	(a)	7,161	382
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(4)	3
Income tax effect		—	—
	(b)	(4)	3
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		6	(40)
Income tax effect		(2)	10
	(c)	4	(30)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Income tax effect		—	—
	(d)	—	—
Total other components that will not be reclassified subsequently to Separate Income Statements	(e=b+c+d)	—	(27)
Other components that will be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		4	(36)
Loss (profit) transferred to the Separate Income Statement		—	25
Income tax effect		(1)	1
	(f)	3	(10)
Hedging instruments:			
Profit (loss) from fair value adjustments		(409)	(202)
Loss (profit) transferred to the Separate Income Statement		312	8
Income tax effect		23	47
	(g)	(74)	(147)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Loss (profit) transferred to the Separate Income Statement		—	—
Income tax effect		—	—
	(h)	—	—
Total other components that will be reclassified subsequently to Separate Income Statements	(i= f+g+h)	(71)	(157)
Total other components of the Statements of Comprehensive Income	(k= e+i)	(71)	(184)
Total comprehensive income (loss) for the year	(a+k)	7,090	198

Statements of Financial Position

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Assets			
Non-current assets			
Intangible assets			
Goodwill	23,051	24,341	(1,290)
Intangible assets with a finite useful life	5,500	5,818	(318)
	28,551	30,159	(1,608)
Tangible assets			
Property, plant and equipment owned	10,335	10,591	(256)
Rights of use assets	4,096	4,906	(810)
Other non-current assets			
Investments	7,245	6,861	384
Non-current financial receivables for lease contracts	17	16	1
Other non-current financial assets	2,490	2,333	157
Miscellaneous receivables and other non-current assets	1,733	1,746	(13)
Deferred tax assets	7,337	882	6,455
	18,822	11,838	6,984
Total Non-current assets (a)	61,804	57,494	4,310
Current assets			
Inventories	144	155	(11)
Trade and miscellaneous receivables and other current	3,464	3,731	(267)
Current income tax receivables	39	67	(28)
Current financial assets			
Current financial receivables arising from lease contracts	44	54	(10)
Securities other than investments, other financial receivables and other current financial assets	110	122	(12)
Cash and cash equivalents	1,766	829	937
	1,920	1,005	915
Current assets sub-total	5,567	4,958	609
Discontinued operations/Non-current assets held for sale	—	828	(828)
Total Current Assets (b)	5,567	5,786	(219)
Total Assets (a+b)	67,371	63,280	4,091

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Equity and liabilities			
Equity			
Share capital issued	11,677	11,677	—
less: Treasury shares	(19)	(21)	2
Share capital	11,658	11,656	2
Additional paid-in capital	2,133	2,094	39
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	11,217	4,424	6,793
Total Equity (c)	25,008	18,174	6,834
Non-current liabilities			
Non-current financial liabilities for financing contracts and others	24,440	26,182	(1,742)
Non-current financial liabilities for lease contracts	3,506	4,002	(496)
Employee benefits	676	1,106	(430)
Deferred tax liabilities	—	2	(2)
Provisions	618	528	90
Miscellaneous payables and other non-current liabilities	3,477	2,973	504
Total Non-current liabilities (d)	32,717	34,793	(2,076)
Current liabilities			
Current financial liabilities for financing contracts and others	3,342	3,787	(445)
Current financial liabilities for lease contracts	463	666	(203)
Trade and miscellaneous payables and other current	5,610	5,843	(233)
Income tax payable	231	17	214
Current liabilities sub-total	9,646	10,313	(667)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	—	—	—
Total Current Liabilities (e)	9,646	10,313	(667)
Total Liabilities (f=d+e)	42,363	45,106	(2,743)
Total Equity and Liabilities (c+f)	67,371	63,280	4,091

Statements of Cash Flows

(million euros)	2020	2019
Cashflow from operating activities:		
Profit (loss) for the year	7,161	382
Adjustments for:		
Depreciation & amortization	3,582	3,719
Impairment losses (reversals) of non-current assets (including investments)	43	57
Net change in deferred tax assets and liabilities	(6,433)	55
Losses (gains) realized on disposals of non-current assets (including investments)	(212)	32
Change in provisions for employee benefits	(611)	(260)
Change in inventories	12	107
Change in trade receivables and other net receivables	217	107
Changes in trade payables	(23)	(121)
Net change in income tax receivables/payables	694	100
Net change in miscellaneous receivables/payables and other assets/liabilities	56	217
Cash flows from (used in) operating activities (a)	4,486	4,395
Cash flows from investing activities:		
Purchases of intangible, tangible and rights of use assets on a cash	(2,285)	(2,307)
Contributions for plants received	24	28
Cash arising from corporate actions	51	14
Acquisitions/disposals of other investments	(101)	(43)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)	(62)	241
Proceeds received from the sale of investments in subsidiaries	—	142
Proceeds from sale/repayments of intangible, tangible, rights of use assets and other non-current assets	1,822	12
Cash flows from (used in) investing activities (b)	(551)	(1,913)
Cash flows from financing activities:		
Change in current financial liabilities and other	(732)	(886)
Proceeds from non-current financial liabilities (including current	1,022	3,814
Repayments of non-current financial liabilities (including current	(2,809)	(4,796)
Changes in hedging and non-hedging derivatives	93	(187)
Share capital proceeds/reimbursements	8	—
Dividends paid	(317)	(166)
Cash flows from (used in) financing activities (c)	(2,735)	(2,221)
Aggregate cash flows (d=a+b+c)	1,200	261
Net cash and cash equivalents at beginning of the year (e)	45	(216)
Net cash and cash equivalents at end of the year (f=d+e)	1,245	45

Purchases of intangible, tangible and rights of use assets

(million euros)	2020	2019
Purchases of intangible assets	(959)	(819)
Purchases of tangible assets	(1,468)	(1,658)
Purchases of rights of use assets	(947)	(921)
Total purchase of intangible, tangible and rights of use assets on an	(3,374)	(3,398)
Change in payables arising from purchases of intangible, tangible and rights of use assets	1,089	1,091
Total purchase of intangible, tangible and rights of use assets on a	(2,285)	(2,307)

Additional Cash Flow Information

(million euros)	2020	2019
Income taxes (paid)/received	249	(28)
Interest expense paid	(1,389)	(1,689)
Interest income received	465	655
Dividends received	331	140

Analysis of Net Cash and Cash Equivalents

(million euros)	2020	2019
Net cash and cash equivalents at the beginning of the year:		
Cash and cash equivalents	829	885
Bank overdrafts repayable on demand	(784)	(1,101)
	45	(216)
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	1,765	829
Bank overdrafts repayable on demand	(520)	(784)
	1,245	45

The additional disclosures required by IAS 7 are provided in the Note “Net Financial Debt” in the Separate Financial Statements of TIM S.p.A. as at December 31, 2020.

AFTER LEASE INDICATORS - TIM S.p.A.

The Company, in addition to the conventional financial performance measures established by the IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. In particular, following the adoption of IFRS 16, TIM presents the following additional alternative performance indicators:

TIM S.p.A. EBITDA ADJUSTED AFTER LEASE

(million euros)	2020	2019	Absolute changes		%
ORGANIC EBITDA - excluding non-recurring items	5,491	6,150	(659)		(10.7)
Lease payments	(599)	(824)	225		(27.3)
EBITDA adjusted After Lease (EBITDA-AL)	4,892	5,326	(434)		(8.1)

TIM S.p.A. ADJUSTED NET FINANCIAL DEBT AFTER LEASE

(million euros)	12.31.2020	12.31.2019	Changes
Adjusted net financial debt	25,783	29,740	(3,957)
Leasing	(3,908)	(4,656)	748
Adjusted net financial debt - After Lease	21,875	25,084	(3,209)

TIM S.p.A. EQUITY FREE CASH FLOW AFTER LEASE

(million euros)	2020	2019	Changes
EQUITY FREE CASH FLOW	2,060	2,228	(168)
Leasing	(558)	(684)	126
EQUITY FREE CASH FLOW AFTER LEASE	1,502	1,544	(42)

Net financial debt

Net financial debt is composed as follows:

(million euros)	12.31.2020 (a)	12.31.2019 (b)	Changes (a-b)
Non-current financial liabilities			
Bonds	14,506	15,118	(612)
Amounts due to banks, other financial payables and liabilities	9,934	11,064	(1,130)
Finance lease liabilities	3,506	4,002	(496)
	27,946	30,184	(2,238)
Current financial liabilities (1)			
Bonds	864	1,603	(739)
Amounts due to banks, other financial payables and liabilities	2,478	2,184	294
Finance lease liabilities	463	666	(203)
	3,805	4,453	(648)
Total Gross financial debt	31,751	34,637	(2,886)
Non-current financial assets			
Non-current financial receivables for lease contracts	(17)	(16)	(1)
Financial receivables and other financial assets	(2,490)	(2,333)	(157)
	(2,507)	(2,349)	(158)
Current financial assets			
Securities other than investments	—	—	—
Current financial receivables arising from lease contracts	(44)	(54)	10
Financial receivables and other financial assets	(110)	(122)	12
Cash and cash equivalents	(1,766)	(829)	(937)
	(1,920)	(1,005)	(915)
Total financial assets	(4,427)	(3,354)	(1,073)
Net financial debt carrying amount	27,324	31,283	(3,959)
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(1,541)	(1,543)	2
Adjusted net financial debt	25,783	29,740	(3,957)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	28,825	31,992	(3,167)
Total adjusted financial assets	(3,042)	(2,252)	(790)
<i>(1) of which current portion of medium/long-term debt:</i>			
Bonds	864	1,603	(739)
Amounts due to banks, other financial payables and liabilities	1,356	905	451
Finance lease liabilities	456	666	(210)

The non-current portion of gross financial debt amounted to 27,946 million euros (30,184 million euros at the end of 2019) and represented 88% of total gross financial debt.

In line with the Group's objectives in terms of debt composition and in accordance with the Guidelines adopted for the "Management and control of financial risk", TIM S.p.A., in securing both third-party and intercompany loans, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.

Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on financial 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 fix the exchange rate and interest rate of future variable contractual flows.

Adjusted net financial debt amounted to 25,783 million euros at December 31, 2020, **a decrease of 3,957 million euros compared to December 31, 2019** (29,740 million euros). The reduction was due in part to solid generation of free cash flow, obtained in part by optimization of working capital, which allowed payment of dividends on ordinary and savings shares of TIM S.p.A. for total 317 million euros (as compared with 166 million euros paid in 2019 to savings shares only), payment of the installment for the 5G license (110 million euros), as well as the effects of the INWIT transaction. In particular, with regard to INWIT we point out the deconsolidation of the company's debt (780 million euros compared to December 31, 2019) which broadly compensated for new debts incurred for leases to INWIT, now under joint control (368 million euros), after the ending of financial lease contracts with Vodafone (214 million euros), the collection of dividends (256 million euros, of which 214 million euros was in extraordinary dividends) and the sale of 4.3% of the holding (400 million euros). On October 2, 2020, sales were made by TIM S.p.A. to Daphne 3 S.p.A. of 14.8% of the investment in INWIT (1,345 million euros) and to Canson of 1.2% of the investment in INWIT (109 million euros). On December 04, 2020, following the exercise

of an option maturing at year-end, TIM S.p.A. sold the remaining share held in INWIT, equal to 1.8% (161 million euros) to Canson. Therefore, following these transactions, as at December 31, 2020, INWIT was held 30.2% by Daphne 3 S.p.A., a subsidiary held 51% by TIM S.p.A.

Additionally, following the request made by TIM S.p.A. for the Patent box benefit for the five years 2015-2019, 303 million euros has already been collected.

For a better understanding of the information, the table below shows the various ways by which the Net Financial Debt can be shown:

(million euros)	12.31.2020	12.31.2019	Changes
Net financial debt carrying amount	27,324	31,283	(3,959)
<i>Reversal of fair value measurement of derivatives and related financial liabilities/assets</i>	<i>(1,541)</i>	<i>(1,543)</i>	<i>2</i>
Adjusted net financial debt	25,783	29,740	(3,957)
<i>Leasing</i>	<i>(3,908)</i>	<i>(4,656)</i>	<i>748</i>
Adjusted net financial debt - After Lease	21,875	25,084	(3,209)

The **Net Financial Debt carrying amount** at December 31, 2020 amounted to 25,783 million euros, down 3,957 million euros on December 31, 2019 (31,283 million euros); and reflects the impact of the application of the new accounting standard IFRS 16 (Leases). Reversal of the fair value measurement of derivatives and related financial liabilities/assets recorded a change of 2 million euros compared to December 31, 2019, with the impact attributable to the significant decline in US dollar interest rates being limited to just a few hedges and offset by the lesser decline in euro rates. This valuation is adjusted by the booked Financial Debt with no monetary effect.

Adjusted Net Financial Debt – After Lease (net of the impact of all leases), which is a parameter adopted by main European peers, was equal to 21,875 million euros at December 31, 2020, down by 3,209 million euros compared to December 31, 2019 (25,084 million euros). The reduction is lower than shown in the Adjusted net financial debt, as the effects of the deconsolidation/new payables due to IFRS 16 in relation to the INWIT transaction.

Gross financial debt

Bonds

Bonds at December 31, 2019 totaled 15,370 million euros (16,721 million euros at December 31, 2019). Their nominal repayment amount was 14,974 million euros, a decrease of 1,392 million euros compared to December 31, 2019 (16,366 million euros).

Changes in bonds over 2020 are shown below:

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 719 million euros 4.000% ⁽¹⁾	Euros	719	21-Jan-20
Telecom Italia S.p.A. 547 million euros 4.875% ⁽²⁾	Euro	547	25-Sep-20

(1) Net of buy-backs totaling 281 million euros made by the company in 2015.

(2) Net of buy-backs totaling 453 million euros made by the company in 2015.

With reference to Telecom Italia S.p.A. 2002–2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2020 was 217 million euros, up by 12 million euros compared to December 31, 2019 (205 million euros).

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2020.

(billion euros)	12.31.2020		12.31.2019	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – maturing January 2023	5.0	—	5.0	—
Bridge to Bond Facility – maturing May 2021	1.7	—	—	—
Total	6.7	—	5.0	—

At December 31, 2020, TIM had bilateral Term Loans for 1,500 million euros with various banking counterparties and overdraft facilities for 490 million euros, drawn down for the full amount.

On May 18, 2020 TIM created a new credit line, structured as a bridge to bond, for later issuing on the bond market, for 1.7 billion euros and initially maturing after 12 months, with the option of extension for another 12 months.

On January 18, 2021, TIM issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

On January 19, 2021, TIM decided to totally cancel the unused 1.7 billion euros Bridge to Bond line.

Maturities of financial liabilities

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 9.31 years.

Details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, are provided in the Note “Financial Liabilities (non-current and current)” of the Separate Financial Statements of TIM S.p.A. at December 31, 2020.

Financial assets and liquidity margin

Financial assets totaled 4,427 million euros (3,354 million euros at December 31, 2019), of which 763 million euros relating to financial receivables from Group companies.

Of that total, 1,920 million euros (1,005 million euros at December 31, 2019) was classified as current financial assets.

The available liquidity margin of TIM S.p.A. amounted to 8,466 million euros, equal to the sum of:

- “Cash and cash equivalents” and “Current securities other than investments” for a total of 1,766 million euros (829 million euros at December 31, 2019);
- the new *Revolving Credit Facility* of 5,000 million euros and the Bridge to Bond Facility of 1,700 million euros, totally available.

This margin is amply sufficient to cover the financial liabilities due.

In particular:

Cash and cash equivalents amounted to 1,766 million euros (829 million euros at December 31, 2019). The different technical forms of investing available cash can be analyzed as follows:

- Maturities: investments have a maximum maturity of three months;
- Counterparty risk: investments are made with leading banking and financial institutions with high-credit-quality;
- Country risk: deposits have been made mainly in major European financial markets.

RECONCILIATION OF CONSOLIDATED EQUITY

(million euros)	Profit (loss) for the year		Equity at 12/31	
	2020	2019	2020	2019
Equity and Profit (Loss) for the year of TIM S.p.A.	7,161	382	25,008	18,174
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interest	391	946	13,461	14,634
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to Owners of the Parent:				
elimination of carrying amount of consolidated investments	—	—	(22,158)	(27,257)
impairment losses of consolidated companies included in the results of parent companies	9	27	9,515	12,628
elimination of goodwill recognized in Parent financial statements	—	—	(23,051)	(24,341)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill	—	—	22,749	22,944
- goodwill attributed to INWIT (Asset held for sale)	—	—	—	3,036
- allocation of the purchase price to the net assets acquired and liabilities assumed in business combinations	1	(1)	2	(2)
measurement of hedging derivatives at Group level	(22)	46	901	755
effect of elimination of carrying amount of Parent's shares held by Telecom Italia Finance	—	—	(48)	(70)
intra-group dividends	(558)	(426)	(256)	—
change in share of losses (profits) from sale of investments	220	(26)	246	—
other adjustments	22	(32)	(154)	(221)
Equity and Profit (Loss) for the year attributable to Owners of the Parent	7,224	916	26,215	20,280
Equity and Profit (Loss) for the year attributable to Non-controlling interests	128	326	2,625	2,346
Equity and Profit (Loss) for the year in the Consolidated Financial Statements	7,352	1,242	28,840	22,626

CORPORATE BOARDS AT DECEMBER 31, 2020

Board of Directors

The Ordinary Shareholders' meeting of TIM, held on May 4, 2018, appointed a new Board of 15 Directors and for a three-year term of office (up to the approval of the financial statements at December 31, 2020). At its first meeting on May 7, 2018, the Board of Directors appointed Fulvio Conti as its Chairman, and Amos Genish as Chief Executive Officer of the Company.

At the Board of Directors' meeting held on July 24, 2018, the director Dante Roscini was appointed Lead Independent Director, tasked with supporting the chairman (an independent) in coordinating the board's work, and with the powers and responsibilities identified in the Borsa Italiana Corporate Governance Code.

In the meeting of November 13, 2018, the Board of Directors revoked all the powers granted to the director Amos Genish, provisionally assigning them to the Chairman of the Board of Directors, Fulvio Conti; on November 18, 2018, the Board of Directors appointed Luigi Gubitosi as Chief Executive Officer and General Manager, granting him executive powers.

On February 21, 2019, the Board of Directors resolved to override the exclusion of the powers already assigned in November 2018 to the Head of Security from the perimeter of powers of the Chief Executive Officer, Luigi Gubitosi, as Security Chief Executive Officer pursuant to the regulations Golden Power.

On June 27, 2019, the Board of Directors took note of the resignation of Amos Genish as Director, unanimously co-opting director Franck Cadoret in his place.

On September 26, 2019, the Board of Directors took note of the resignation of Fulvio Conti as Chairman and Director and at the meeting of October 21, 2019 co-opted Salvatore Rossi, appointing him Chairman.

The Shareholders' Meeting of April 23, 2020 resolved to confirm the directors of the company (expiring at the approval of the financial statements at December 31, 2020) Messrs. Franck Cadoret and Salvatore Rossi.

The Board of Directors meeting held at the conclusion of the Shareholders' Meeting resolved to confirm Mr. Salvatore Rossi as Chairman of the Board of Directors and Mr. Franck Cadoret as a member of the Sustainability and Strategies Committee.

The current power structure of the Company provides:

- to the Chairman, the powers and responsibilities contemplated by law, the Articles of Association and corporate governance arrangements;
- to the Chief Executive Officer, all powers necessary to perform acts pertinent to the Company's business, except for the powers reserved by law and the Articles of Association to the Board of Directors.

The composition of the Company's Board of Directors at December 31, 2020 was therefore:

Chairman	Salvatore Rossi (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi
Directors	Alfredo Altavilla (independent) Paola Bonomo (independent) Franck Cadoret Giuseppina Capaldo (independent) Maria Elena Cappello (independent) Massimo Ferrari (independent) Paola Giannotti de Ponti (independent) Marella Moretti (independent) Lucia Morselli (independent) Dante Roscini (Lead Independent Director)
Secretary to the Board	Arnaud Roy de Puylfontaine Agostino Nuzzolo

The following board committees were in place at December 31, 2020:

- **Control and Risk Committee:** composed of the Directors: Paola Giannotti de Ponti (Chairman), Massimo Ferrari, Marella Moretti, Lucia Morselli and Michele Valensise;
- **Nomination and Remuneration Committee:** composed of board members: Alfredo Altavilla (Chairman), Paola Bonomo, Giuseppina Capaldo, Rocco Sabelli, and Michele Valensise;
- **Related Parties Committee:** composed of the Directors: Lucia Morselli (Chairwoman), Giuseppina Capaldo, Maria Elena Cappello, Marella Moretti, and Dante Roscini;
- **Sustainability and Strategies Committee** (renamed by the Board of Directors on March 10, 2020, which amended the mission of the Strategic Committee, including the task of checking the consistency of Telecom Italia's objectives and management with environmental, social and corporate sustainability criteria): made up of the Chairman of the Board of Directors, Salvatore Rossi, the Chief Executive Officer, Luigi Gubitosi, and the Directors Paola Bonomo (from March 10, 2020), Franck Cadoret (confirmed on April 23, 2020), Maria Elena Cappello (from March 10, 2020), Arnaud Roy de Puylfontaine, Massimo Ferrari and Rocco Sabelli.

Board of Statutory Auditors

The Ordinary Shareholders' Meeting of April 24, 2018 appointed the Company's Board of Statutory Auditors for a term of office that will end with the approval of the 2020 financial statements.

The Board of Statutory Auditors of the Company is now composed as follows:

Chairman	Roberto Capone
Standing Auditors	Giulia De Martino Anna Doro Marco Fazzini Francesco Schiavone Panni
Alternate Auditors	Andrea Balelli Antonia Coppola Franco Dalla Sega Laura Fiordelisi

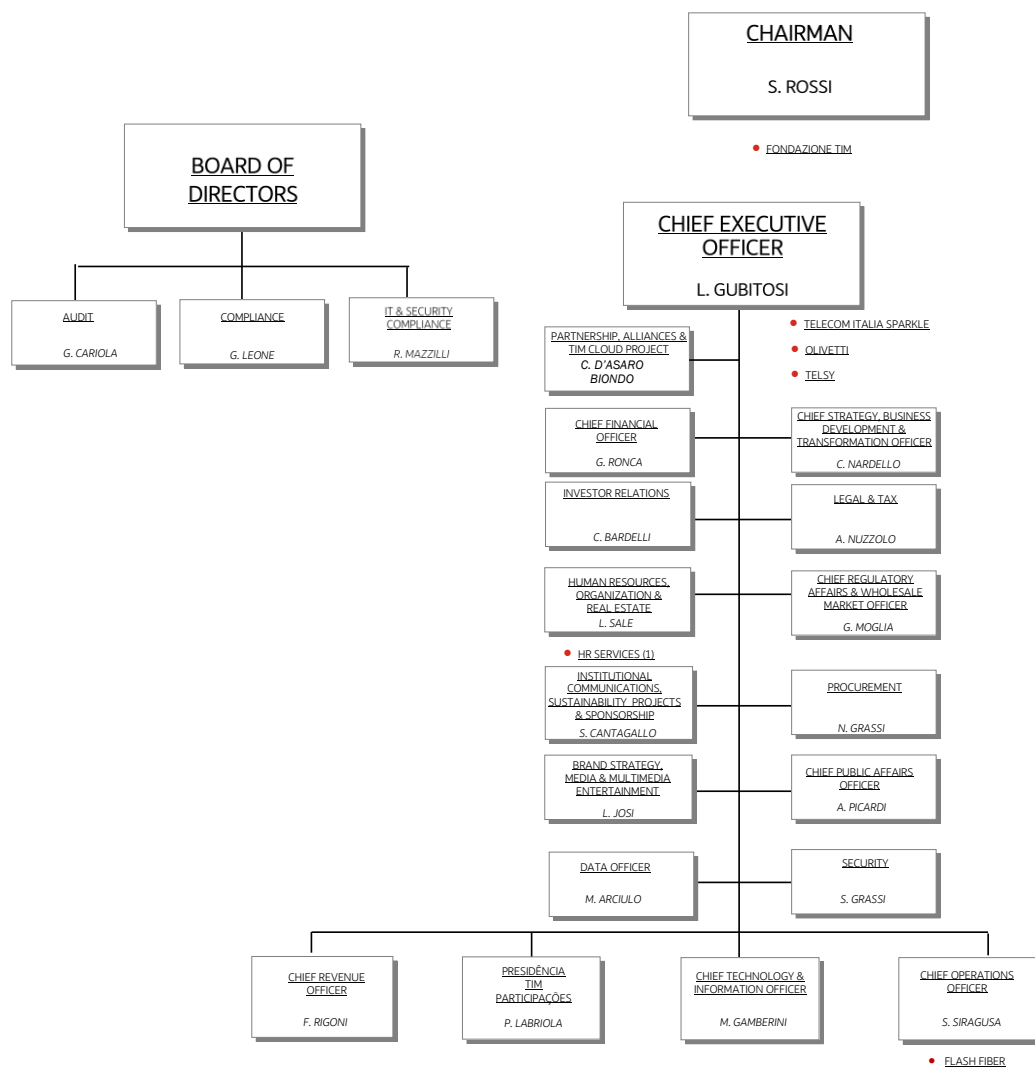
Independent Auditor

The engagement for the independent auditing of the financial statements of TIM S.p.A. for the nine-year period 2019-2027 was awarded to EY S.p.A. by the shareholders' meeting of March 29, 2019.

Executive responsible for preparing the corporate accounting documents

At the meeting of May 20, 2019, the Board of Directors appointed Giovanni Ronca (Head of the Group Administration, Finance and Control Function) as the manager responsible for preparing the financial reports of TIM S.p.A.

MACRO-ORGANIZATION CHART



(1) Merger into TIM S.p.A. effective December 31, 2020

**TIM GROUP
CONSOLIDATED
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2020**



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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(million euros)	Notes	12.31.2020	of which with related parties	12.31.2019	of which with related parties
Non-current assets					
Intangible assets					
Goodwill	5)	22,847	—	23,083	—
Intangible assets with a finite useful life	6)	6,740	—	7,667	—
		29,587	—	30,750	—
Tangible assets	7)				
Property, plant and equipment owned		13,141	—	14,011	—
Right of use assets	8)	4,992	347	5,494	—
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method	9)	2,728	—	11	—
Other investments	9)	54	—	52	—
Non-current financial receivables from lease contracts	10)	43	—	51	—
Other non-current financial assets	10)	2,267	—	2,100	—
Miscellaneous receivables and other non-current assets	11)	2,114	—	2,585	—
Deferred tax assets	12)	7,496	—	942	—
		14,702	—	5,741	—
Total Non-current assets	(a)	62,422	—	55,996	—
Current assets					
Inventories	13)	242	—	260	—
Trade and miscellaneous receivables and other current assets	14)	4,346	61	4,857	8
Current income tax receivables	12)	86	—	149	—
Current financial assets	10)				
<i>Current financial receivables arising from lease contracts</i>		55	—	58	—
<i>Securities other than investments, other financial receivables and other current financial assets</i>		1,254	—	999	—
<i>Cash and cash equivalents</i>		4,829		3,138	
		6,138	—	4,195	—
Current assets sub-total		10,812	—	9,461	—
Discontinued operations /Non-current assets held for sale	15)				
of a financial nature		—	—	65	—
of a non-financial nature		—	—	4,582	—
		—	—	4,647	—
Total Current Assets	(b)	10,812	—	14,108	—
Total Assets	(a+b)	73,234	—	70,104	—

Equity and liabilities

(million euros)	Notes	12.31.2020	of which with related parties	12.31.2019	of which with related parties
Equity	16)				
Share capital issued		11,677	—	11,677	—
less: Treasury shares		(89)	—	(90)	—
Share capital		11,588	—	11,587	—
Additional paid-in capital		2,133	—	2,094	—
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		12,494	—	6,599	—
Equity attributable to owners of the Parent		26,215	—	20,280	—
Non-controlling interests		2,625	—	2,346	—
Total Equity	(c)	28,840	—	22,626	—
Non-current liabilities					
Non-current financial liabilities for financing contracts and others	17)	23,655	—	25,605	—
Non-current financial liabilities for lease contracts	17)	4,199	313	4,576	1
Employee benefits	22)	724	—	1,182	—
Deferred tax liabilities	12)	277	—	248	—
Provisions	23)	770	—	725	—
Miscellaneous payables and other non-current liabilities	24)	3,602	3	3,214	1
Total Non-current liabilities	(d)	33,227		35,550	
Current liabilities					
Current financial liabilities for financing contracts and others	17)	3,677	—	3,182	—
Current financial liabilities for lease contracts	17)	631	50	639	—
Trade and miscellaneous payables and other current liabilities	25)	6,588	163	7,218	61
Income tax payables	12)	271	—	84	—
Current liabilities sub-total		11,167		11,123	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	15)				
of a financial nature		—	—	655	—
of a non-financial nature		—	—	150	—
		—	—	805	—
Total Current Liabilities	(e)	11,167	—	11,928	—
Total Liabilities	(f=d+e)	44,394	—	47,478	—
Total Equity and Liabilities	(c+f)	73,234	—	70,104	—

SEPARATE CONSOLIDATED INCOME STATEMENTS

(million euros)	notes	Year 2020	of which with related parties	Year 2019	of which with related parties
Revenues	27)	15,805	94	17,974	4
Other operating income	28)	211	1	933	—
Total revenues and operating income		16,016		18,907	
Acquisition of goods and services	29)	(6,173)	(363)	(6,463)	(147)
Employee benefits expenses	30)	(2,639)	(89)	(3,077)	(96)
Other operating expenses	31)	(961)	(2)	(1,625)	—
Change in inventories		(6)	—	(128)	—
Internally generated assets	32)	502	—	537	—
Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		6,739		8,151	
<i>of which: impact of non-recurring items</i>	43)	<i>(324)</i>		<i>(71)</i>	
Depreciation and amortization	33)	(4,616)	(39)	(4,927)	—
Gains/(losses) on disposals of non-current assets	34)	(11)	—	(49)	—
Impairment reversals/(losses) on non-current assets	35)	(8)	—	—	—
Operating profit (loss) (EBIT)		2,104		3,175	
<i>of which: impact of non-recurring items</i>	43)	<i>(324)</i>		<i>(89)</i>	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	9)	18	—	(3)	—
Other income (expenses) from investments	36)	454	—	3	—
Finance income	37)	1,143	—	946	—
Finance expenses	37)	(2,322)	(15)	(2,382)	—
Profit (loss) before tax from continuing operations		1,397		1,739	
<i>of which: impact of non-recurring items</i>	43)	<i>121</i>		<i>(122)</i>	
Income tax expense	12)	5,955	—	(513)	—
Profit (loss) from continuing operations		7,352		1,226	
Profit (loss) from Discontinued operations/Non-current assets held for sale	15)	—		16	
Profit (loss) for the year	38)	7,352		1,242	
<i>of which: impact of non-recurring items</i>	43)	<i>6,048</i>		<i>(146)</i>	
Attributable to:					
Owners of the Parent		7,224		916	
Non-controlling interests		128		326	

(euros)	Year 2020	Year 2019
Earnings per share:	39)	
(Basic) Earnings per share		
Ordinary Share	0.34	0.04
Savings Share	0.35	0.05
<i>of which:</i>		
from Continuing operations attributable to the Owners of the Parent		
Ordinary Share	0.34	0.04
Savings Share	0.35	0.05
Diluted earnings per share		
Ordinary Share	0.33	0.04
Savings Share	0.34	0.05
<i>of which:</i>		
from Continuing operations attributable to the Owners of the Parent		
Ordinary Share	0.33	0.04
Savings Share	0.34	0.05

STATEMENTS OF COMPREHENSIVE INCOME

Note 16

(million euros)

		Year 2020	Year 2019
Profit/(Loss) for the year	(a)	7,352	1,242
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(4)	4
Income tax effect		—	—
	(b)	(4)	4
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		6	(44)
Income tax effect		(1)	10
	(c)	5	(34)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Income tax effect		—	—
	(d)	—	—
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	(e=b+c+d)	1	(30)
Other components that will be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		5	(19)
Loss (profit) transferred to Separate Consolidated Income Statement		—	(5)
Income tax effect		—	8
	(f)	5	(16)
Hedging instruments:			
Profit (loss) from fair value adjustments		(253)	367
Loss (profit) transferred to Separate Consolidated Income Statement		373	(227)
Income tax effect		(30)	(17)
	(g)	90	123
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(1,612)	(113)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement		—	—
Income tax effect		—	—
	(h)	(1,612)	(113)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Loss (profit) transferred to Separate Consolidated Income Statement		—	—
Income tax effect		—	—
	(i)	—	—
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	(k=f+g+h+i)	(1,517)	(6)
Total other components of the Consolidated Statement of Comprehensive Income	(m=e+k)	(1,516)	(36)
Total comprehensive income (loss) for the year	(a+m)	5,836	1,206
Attributable to:			
Owners of the Parent		6,199	916
Non-controlling interests		(363)	290

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes from January 1, 2019 to December 31, 2019

(million euros)	Equity attributable to Owners of the Parent								Total	Non-controlling interest	Total equity
	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 rate 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 year			
Balance at December 31,	11,587	2,094	30	(563)	(1,340)	(90)	—	7,810	19,528	2,219	21,747
Changes in equity during the year:											
Dividends approved		—	—	—	—	—	—	(166)	(166)	(130)	(296)
Total comprehensive income (loss) for the year		—	(12)	123	(77)	(34)	—	916	916	290	1,206
Issue of equity instruments		—	—	—	—	—	—	4	4	—	4
Change in the scope of consolidation		—	—	—	—	—	—	—	—	(44)	(44)
Other changes	—	—	1	—	—	—	—	(3)	(2)	11	9
Balance at December 31, 2019	11,587	2,094	19	(440)	(1,417)	(124)	—	8,561	20,280	2,346	22,626

Changes from January 1, 2020 to December 31, 2020

Note 16

(million euros)	Equity attributable to Owners of the Parent								Total	Non-controlling interest	Total equity
	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 rate differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans for 19 euros (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 year			
Balance at December 31,	11,587	2,094	19	(440)	(1,417)	(124)	—	8,561	20,280	2,346	22,626
Changes in equity during the year:											
Dividends approved		—	—	—	—	—	—	(316)	(316)	(62)	(378)
Total comprehensive income (loss) for the year		—	1	90	(1,121)	5	—	7,224	6,199	(363)	5,836
Issue of equity instruments	1	39	—	—	—	—	—	3	43	—	43
INWIT – deconsolidation	—	—	—	—	—	—	—	—	—	(644)	(644)
Daphne 3 – capital increase		—	—	—	—	—	—	—	—	1,334	1,334
Other movements	—	—	—	—	—	—	—	9	9	14	23
Balance at December 31, 2020	11,588	2,133	20	(350)	(2,538)	(119)	—	15,481	26,215	2,625	28,840

CONSOLIDATED STATEMENTS OF CASH FLOWS

(million euros)	Notes	Year 2020	Year 2019
Cashflow from operating activities:			
Profit (loss) from continuing operations		7,352	1,226
Adjustments for:			
Depreciation & amortization		4,616	4,927
Impairment losses (reversals) on non-current assets (including investments)		36	31
Net change in deferred tax assets and liabilities		(6,538)	271
Losses (gains) from realization of non-current assets (including investments)		(441)	47
Share of losses (profits) of associates and joint ventures accounted for using the equity method		(18)	3
Change in provisions for employee benefits		(628)	(246)
Change in inventories		20	129
Change in trade receivables and other net receivables		484	—
Change in trade payables		(231)	(181)
Net change in receivables/payables for income taxes		708	114
Net change in miscellaneous receivables/payables and other assets/liabilities		1,191	(387)
Cash flows from (used in) operating activities	(a)	6,551	5,934
Cash flows from investing activities:			
Purchases of intangible, tangible and rights of use assets on a cash basis		(3,477)	(3,649)
Capital grants received		24	28
Acquisition of control of companies or other businesses, net of cash acquired		(7)	—
Acquisitions/disposals of other investments		(11)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		(251)	231
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		(33)	125
Proceeds from sale/repayments of intangible, tangible and other non-current assets		678	14
Cash flows from (used in) investing activities	(b)	(3,077)	(3,255)
Cash flows from investing activities:			
Change in current financial liabilities and other		(1,771)	(545)
Proceeds from non-current financial liabilities (including current portion)		1,470	4,527
Repayments of non-current financial liabilities (including current portion)		(2,790)	(4,412)
Changes in hedging and non-hedging derivatives		310	(415)
Share capital proceeds/reimbursements (including subsidiaries)		1,164	10
Dividends paid (*)		(390)	(279)
Changes in ownership interests in consolidated subsidiaries		(2)	—
Cash flows from (used in) financing activities	(c)	(2,009)	(1,114)
Cash flows from (used in) Discontinued operations/Non-current assets	(d)	—	16
Aggregate cash flows	(e=a+b+c+d)	1,465	1,581
Net cash and cash equivalents at beginning of the year	(f)	3,202	1,631
Net foreign exchange differences on net cash and cash equivalents	(g)	(159)	(10)
Net cash and cash equivalents at end of the year	(h=e+f+g)	4,508	3,202
(*) of which to related parties:		36	—

Purchases of intangible, tangible and rights of use assets

(million euros)	Notes	Year 2020	Year 2019
Purchases of intangible assets	6)	(1,197)	(1,064)
Purchases of tangible assets	7)	(2,138)	(2,644)
Purchases of rights of use assets	8)	(1,362)	(1,216)
Total purchase of intangible, tangible and rights of use assets on an accrual basis (*)		(4,697)	(4,924)
Change in payables arising from purchase of intangible, tangible and rights of use assets		1,220	1,275
Total purchases of intangible, tangible and rights of use assets on a cash basis		(3,477)	(3,649)
(*) of which from related parties:		378	2

Additional Cash Flow information

(million euros)	Year 2020	Year 2019
Income taxes (paid)/received	223	(118)
Interest expense paid	(1,520)	(1,750)
Interest income received	448	589
Dividends received	256	1

Analysis of net cash and cash equivalents

(million euros)	Year 2020	Year 2019
Net cash and cash equivalents at the beginning of the year:		
Cash and cash equivalents - from continuing operations	3,138	1,917
Bank overdrafts repayable on demand - from continuing operations	(1)	(286)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	65	—
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	—	—
	3,202	1,631
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents - from continuing operations	4,829	3,138
Bank overdrafts repayable on demand - from continuing operations	(321)	(1)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	—	65
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	—	—
	4,508	3,202

The additional disclosures required by IAS 7 are provided in the Note “Net financial debt” to these consolidated financial statements.

NOTE 1

FORM, CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia S.p.A. (the “**Parent Company**”), also known in short as “TIM S.p.A.”, and its subsidiaries form the “**TIM Group**” (the “**Group**”).

TIM is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, TIM, are located in Milan, Italy at Via Gaetano Negri 1.

The duration of TIM S.p.A., as stated in the company's bylaws, extends until December 31, 2100.

The TIM Group operates mainly in Europe, and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The TIM Group's Consolidated Financial Statements at December 31, 2020, have been prepared on a going concern basis (further details are provided in the Note “Accounting Policies”) and in accordance with the recognition and measurement criteria of the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as “IFRS”), as well as laws and regulations in force in Italy.

In 2020, the Group adopted accounting policies consistent with those of the previous year, except for the changes to the accounting standards issued by the IASB and in force as of January 1, 2020. See the Note “Accounting policies” for more details.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets, which are measured at the fair value recognized in the other components of the comprehensive income, financial assets measured at fair value through the income statement, and derivative financial instruments, which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect fair value changes for hedged risks (fair value hedge).

In accordance with IAS 1 (Presentation of Financial Statements) comparative information included in the consolidated financial statements refers, unless otherwise indicated, to the previous year.

The TIM Group consolidated financial statements as at December 31, 2020 are expressed in euro (rounded to the nearest million unless otherwise indicated).

The publication of the consolidated financial statements for the year ended December 31, 2020 of the TIM Group was approved by resolution of the Board of Directors on February 23, 2021.

Financial statement formats

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

- **the Consolidated statements of financial position** have been prepared by classifying assets and liabilities according to the “current and non-current” criterion;
- **the Separate Consolidated Income Statement** have been prepared by classifying operating costs 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 TIM Group's industrial sector. In addition to EBIT or Operating profit (loss), the Separate Consolidated Income Statement includes the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

In particular, besides EBIT, EBITDA is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors), as a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level).

EBIT and EBITDA 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 and joint ventures 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 before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets	

- the **Consolidated statements of comprehensive income** include 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 statements of cash flows** have been prepared by presenting cash flows from operating activities according to the "indirect method", as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the Separate Consolidated Income Statement, income and expenses relating to transactions which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impacts on the main intermediate levels have been shown separately, when they are significant. Specifically, non-recurring income/(expenses) include, for instance: income/expenses arising from the sale of properties, 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 other than regulatory disputes; adjustments, realignments and other non-recurring items, also relating to previous years; impairment losses on the goodwill and/or other intangible and tangible assets. Certain costs related to the COVID-19 pandemic are also identified as non-recurring charges.

Also, in reference to the above Consob Resolution, the amounts relating to balances or transactions with related parties have been shown separately in the consolidated financial statements.

Segment reporting

An operating segment is a component of an entity:

- that engages in business activities that generate revenues and costs (including revenues and costs relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision-maker (the Board of Directors, for the TIM Group) to make decisions about resources to be allocated to the segment and to assess results; and
- for which separate financial information is available.

In particular, the operating segments of the TIM Group are organized according to their geographic location (Domestic and Brazil) for the telecommunications business.

The term "operating segment" is considered synonymous with "Business Unit".

The operating segments of the TIM Group are as follows:

- **Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for end customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group, which, at international level (Europe, the Mediterranean and South America), develops fiber optic networks for wholesale customers, the operations of Olivetti (products and services for Information Technology), and, up to March 31, 2020, INWIT S.p.A. (a company operating in the electronic communications infrastructure sector, and in particular the infrastructure for hosting radio transmission equipment for mobile telephone networks, both for TIM and other operators) and the units supporting the Domestic sector. See the section "Financial and Operating Highlights of the Business Units of the TIM Group – Domestic Business Unit" of the Report on Operations for more details;
- **Brazil:** includes mobile and fixed telecommunications operations in Brazil (TIM S.A.);
- **Other Operations:** include the financial companies (Telecom Italia Capital S.A. and Telecom Italia Finance S.A.) and other minor companies not strictly related to the TIM Group's core business.

NOTE 2

ACCOUNTING POLICIES

Going concern

The consolidated financial statements for the business year 2020 have been prepared on a going concern basis, as there is the reasonable expectation that TIM will continue conducting its business 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 TIM Group are exposed:
 - the changes in the general macroeconomic situation in the Italian, European and Brazilian market, including the effects deriving from the continued state of COVID-19 health emergency, as well as the volatility of financial markets in the Eurozone, partly following the UK's Brexit;
 - 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, as well as the policy for the remuneration of risk capital, as described in the section "Share capital information" under the Note "Equity";
- 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 company, TIM.

Control exists when the Parent company TIM S.p.A. has all the following:

- decision-making 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;
- entitlement to the variable profits or losses commensurate with its shareholding in the investee;
- the ability to use its decision-making to determine the amount of the returns relating to its shareholding in the entity.

TIM 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, the global amounts of the assets, liabilities, costs and revenues of the consolidated companies are recognized on a line-by-line basis, while the share of equity and the year's result of non-controlling interest is recognized is disclosed separately under appropriate items in the consolidated statements of financial position, in the separate consolidated income statement and in the consolidated statements of comprehensive income.

Under IFRS 10 (Consolidated financial statements), the comprehensive loss (including the profit or loss for the year) is attributed to the Owners of the Parent and to non-controlling interest even when the equity of non-controlling interest has a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated in 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 date of acquisition 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.

All the assets and liabilities expressed in currencies other than euro of foreign consolidated entities that are included in the consolidation are translated using the exchange rates in effect at the reporting date (the current exchange rate method), while the related revenues and costs are translated 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 as non-controlling interest equity. The cash flows of foreign consolidated subsidiaries expressed in currencies other than euro included in the consolidated statements of cash flows are translated 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 translated 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 of control are accounted for as equity transactions. In such circumstances, the carrying amounts of 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 interest is 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 interest;
- recognizes:
 - the fair value of any consideration received;
 - the fair value of any residual investment retained in the former subsidiary;
 - 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 and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (Investments in Associates and Joint Ventures) and IFRS 11 (Joint Arrangements).

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 their financial and operating policies.

A joint venture is a joint control arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the entity.

Joint control is the contractually agreed sharing of control of a business that exists only when decisions about the relevant business require the unanimous consent of the parties sharing control.

Associates and joint ventures are included in the consolidated financial statements from the date on which significant influence or joint control commences until the date on which significant influence or joint control ceases.

Under the equity method, on initial recognition the investment in an associate or joint venture 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 separate consolidated 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 a joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture. If the associate or joint venture 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.

Any other long-term interests (some types of preference shares and long-term loans) in an associate or joint venture are measured in accordance with IFRS 9.

Gains and losses resulting from "upstream" and "downstream" transactions between an investor (including its consolidated subsidiaries) and its associate or joint venture are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The investor's share of profits and losses of the associate or joint venture arising from said transactions is eliminated.

Intangible assets

Goodwill

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 proportionally to the non-controlling interest share of the acquiree's identifiable net assets shown at the related fair value;
 - 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 date of acquisition of control.

IFRS 3 requires, inter alia, the following:

- incidental costs incurred in connection with a business combination to be charged to the separate income statement;
- in a business combination achieved in stages, the acquirer to remeasure its previously held equity interest in the acquiree at its fair value at the date of acquisition of control and recognize the resulting gain or loss, if any, in the separate 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 incurred 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 in 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), when the use of the asset is likely to generate future economic benefits and when the cost of the asset can be reliably measured.

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 recognized prospectively in the separate consolidated income statement.

Tangible assets

Property, plant and equipment

Property, plant and equipment are 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.

The cost of these assets 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 in a provision for risks and charges in the liabilities. The recognition in the separate consolidated income statement of the capitalized expenditure is done over the useful life of the related tangible assets through their depreciation.

The calculation 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, is recorded immediately in the separate consolidated income statement, conventionally under the line item "Depreciation".

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

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 recognized prospectively in the separate consolidated income statement.

Land, including land pertaining to buildings, is not depreciated.

Rights 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 consisting in the present value of future lease payments, against the recognition of the right of use of the leased asset.

On the commencement date of the lease, the right of use 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 for the signature of the lease and the present value of the estimated restoration and 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 rights 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 only subsequently 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 translated to euro at the spot rate on the date of the impairment test (in the case of the TIM Group, the closing 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 interest (minority shareholders).

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.

Tangible and intangible assets with finite useful lives and rights of use assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset – whether intangible or tangible 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 deterioration, 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, any changes in technology, markets or laws, trends 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 – has been 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 instruments

Business models for financial assets management

For the management of trade receivables, TIM Group Management has identified different business models based on the specific nature of the receivables, the type of counterparty and collection times, this was in order to optimize the management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal of receivables, and the activation of factoring consistent with financial planning requirements.

The business models adopted are:

- **Hold to Collect:** receivables usually held to maturity, such as trade receivables due from large customers and the OLOs for the Domestic Business Unit, and all receivables for the Brazil Business Unit; these instruments fall within the IFRS 9 category "Assets measured at amortized cost";
- **Hold to Collect and Sell:** receivables usually traded massively and on a recurring basis, such as, for the Domestic Business Unit, receivables due from active consumer, small and business customers held for sale; these instruments fall under the IFRS 9 category "Financial assets measured at fair value through other comprehensive income". As required by IFRS 9, the related reserve is reversed to the separate consolidated income statement when disposed of or impaired.

As part of managing financial assets other than trade receivables, the TIM Group's Management 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 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;
- **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 the separate consolidated income statement.

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) 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 are recognized in the separate consolidated income statement.

Changes in the value of other investments classified as "financial assets at fair value through profit or loss" are recognized directly in the separate consolidated income statement.

Securities other than investments

Securities other than 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 through 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, although they had an original maturity of more than 12 months, they have been bought in a period during which maturity was included between 3 and 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 cash flows. The consolidated "Reserve for financial assets measured at fair value through other comprehensive income" is reversed to the separate consolidated 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.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or 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 losses on 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 has been impaired.

The impairment losses on financial assets is based on the expected credit loss model.

In particular:

- impairment on trade receivables and on contract 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. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions;
- the impairment of financial assets other than trade receivables is calculated 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 worsening of its credit risk.

Derivative financial instruments

As allowed by IFRS 9, the TIM 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 TIM 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 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 arising from the fair value adjustment of the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for fair value adjustment of hedging derivative instruments). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement during the same business years in which the hedged transaction is recognized in 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 considered to be probable, the gains or losses not yet realized included in the equity reserve are immediately recognized in the separate consolidated income statement.

For derivatives for which a hedging relationship has not been designated, changes in value compared to initial recognition are recognized directly 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.

Reverse factoring transactions are also classified under trade payables. The TIM Group has reverse factoring agreements in place, through which TIM gives its bank partners a mandate to pay its suppliers as invoices become due. Suppliers participating in these programs have the rights to sell (without any cost for the TIM Group) receivables due from the Group. They can exercise this right at their total discretion and incurring all the costs to benefit from collection before the contractual due date.

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 the value of liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39: the gains and losses deriving from subsequent fair value adjustments, only as regards the covered component, are recognized in the separate consolidated income statement and counterbalanced by the effective portion of the gain or loss deriving from the corresponding fair value measurements of the hedge 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.

Transfer of receivables

The TIM Group transfers receivables through factoring agreements. These transfers, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, therefore meeting the requirements of IFRS 9 for derecognition. Special service agreements, under which the purchasers grant TIM S.p.A. a mandate to oversee the collection and management of receivables, have been entered into to maintain the relationship between the Company and its customers.

Inventories

Inventories are measured at the lower of purchase or 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.

Non-current assets held for sale/Discontinued operations

Non-current assets held for sale or discontinued groups whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from other assets and liabilities in the consolidated statements of financial position. The corresponding amounts for the previous year are not reclassified in the consolidated statements of financial position, but are instead shown separately in a specific column for changes in assets and liabilities in the year in which non-current assets held for sale or discontinued groups are classified as such.

Discontinued operations are a component of an entity that has been terminated or classified as held for sale and that:

- represents a major business line or geographical area of operation; or
- is part of a single coordinated plan to discontinue a separate major line of business or geographical area of operation; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations – whether discontinued or classified as held for sale – are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets held for sale or discontinued groups classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to each specific asset and liability, and subsequently measured at the lower of the carrying amount and fair value, less cost to sell.

Any subsequent impairment losses are recognized as a direct adjustment to non-current assets (or discontinued groups) classified as held for sale, with a contra-entry in the separate consolidated income statement.

An upward revision of value is, instead, recognized for each subsequent increase in the fair value of an asset less cost to sell, but not in excess of the previously recognized cumulative impairment loss.

As required by IFRS 5 (*Non-current assets held for sale and discontinued operations*), an entity shall not depreciate (or amortize) non-current assets classified as held for sale or being part of a discontinued group.

Finance expenses and other expenses attributable to the liabilities of a discontinued group classified as held for sale must continue to be recognized.

Provisions for employee benefits

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to Article 2120 of the Italian Civil Code, is deferred compensation based on the employee's years of service and on the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity, so calculated, is considered a "Defined benefit plan" and the related liability to be recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations.

The recognition of changes in actuarial gains/losses or re-measurement is recognized in other components of the Consolidated Statements of Comprehensive income. Service cost of Italian companies that employ less than 50 employees, as well as interest expenses related to the "time value" component of actuarial calculations (the latter classified as Finance expenses), are recognized in the separate consolidated income statement.

Starting from January 1, 2007, the Italian Law gave employees the choice to either allocate their accruing indemnity to supplementary pension funds or it as an obligation of the Company. Companies that employ at

least 50 employees must transfer the employee severance indemnity to the "Treasury fund" managed by INPS, the Italian Social Security Institute. Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of "Defined contribution plans".

Equity compensation plans

The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (for example stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

As specified in IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for plans providing for compensation in equity instruments, the cost is the fair value of such instruments at the grant date and is recognized in the separate consolidated income statement in the "Employee benefits expenses" over the period between the grant date and the 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 adjustment to "Other equity instruments" with a contra-entry to "Employee benefits expenses".

The portion of the plans that specifies the payment of compensation in cash is recognized in liabilities as a contra-entry to "Employee benefits expenses"; at the end of each year said liability is measured at fair value.

Provisions

The Group records provisions for risks and charges when, having a present legal or constructive obligation to a third party, as a result of a past event, an outflow of Group resources is likely to be required to meet that obligation, and when the amount of the obligation can be estimated reliably.

When the effect of the time value is material and the payment date of the obligations can be reasonably estimated, the provision is determined by discounting the given expected cash flows by 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 statement as "Finance expenses".

Government grants

Government grants are recognized when there is a reasonable certainty that they will be received and that the Group will satisfy all the conditions established for their granting by the government, government agencies and equivalent local, national or international entities.

Government grants are systematically recognized in the separate income statement over the periods in which the Group recognizes the expenses that the grants are intended to offset as costs.

Government grants related to assets received for the acquisition and/or construction of non-current tangible assets are recorded as deferred income in the statement of financial position and systematically credited to the separate income statement over the useful life of the systems the grants relate to.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, treasury shares are accounted for as a deduction from the share capital issued in the amount corresponding to the "accounting par value", that is the ratio of total share capital and the number of issued shares, while the excess cost of acquisition over the accounting par value is presented as a deduction from "Other reserves and retained earnings (accumulated losses), including profit (loss) for the year".

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 translated 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 of the period arising from the conduction of the company's ordinary business. 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 the recognition of revenues follows the steps set out in IFRS 15:

- **identification of the contract:** this takes place when the parties approve the contract (with commercial substance) and identify the respective rights and obligations: in other terms, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified, and the Group considers receipt of payment as probable;
- **identification of the performance obligations:** the main performance obligations identified, i.e. promises to transfer goods and services that are distinct, are services rendered (including voice and data traffic and ICT solutions) to retail customers, services rendered to wholesale customers, and sale of products;
- **determination of the transaction price:** this is the total amount contracted with the other party regarding the entire contractual term; the Group has determined that the contractual term is the one arising from the contractual obligations between the parties or, in lack of these obligations, it is by convention one month;
- **allocation of the transaction price to the performance obligations:** the allocation is made proportionately to the respective stand-alone selling prices calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service.

Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

For offerings which include the sale of devices and service contracts (bundle offerings), the Group allocates the contractual transaction price to the performance obligations of the contract, proportionately to the stand alone selling prices of the single performance obligations;

- **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**

Revenues from services rendered are recognized in the separate income statements according to the stage of completion of the service, that is based on actual consumption.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example, for non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for traffic already collected but not yet consumed are recorded in "Trade and miscellaneous payables and other current liabilities" in the consolidated statements of financial position.

Revenues for services rendered are generally invoiced and collected bimonthly/monthly for retail customers, or invoiced monthly and collected in 40-60 days for wholesale customers.

- **Revenues from sales**

Revenues from sales (telephone products and others) are recognized upon delivery when control of the assets is transferred to the customers.

The devices sold separately from the services are invoiced at the time of delivery; collection takes place on demand or based on installment plans (up to 48 monthly installments). The devices sold as part of bundle offerings are invoiced at the time of delivery and usually collected in 24 monthly installments.

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

- **Contract assets** are the right to a consideration in exchange for goods or services that have been transferred to the customer, when the right is conditioned on something other than the passage of time.
- **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.

Contract costs (incremental costs of obtaining a contract and costs to fulfill a contract; mainly technical activation costs and costs for sales network commissions) are deferred and recognized through separate consolidated profit or loss depending on the expected term of the contractual relationship with the customers. The TIM Group avails of the practical expedient, permitted under IFRS 15, of recognizing the incremental costs of obtaining a contract in the consolidated income statement if the amortization period is one year or less.

The recoverability of contract assets and deferred costs is periodically assessed.

Research and advertising costs

Research and advertising costs are directly expensed to the separate consolidated income statement in the year in which they are incurred.

Financial 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; changes in the fair value of derivatives and other financial instruments measured at fair value through the income statement; gains and losses on foreign exchange and financial instruments (including derivatives).

Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement on an accrual basis, i.e. 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 expense (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. The amount of the income tax expense relating to each item included as "Other components of the Consolidated Statements of Comprehensive income" is indicated in the Statement of comprehensive income.

The provisions for taxes that could arise from the remittance of the undistributed earnings of subsidiaries are made only 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 the temporary differences that arise between the taxable base of assets and liabilities and the related carrying amounts in the consolidated financial statements, except for those differences related to investments in subsidiaries, which will not reverse in the foreseeable future. Deferred tax assets relating to losses carried forward are recognized to the extent that a future taxable income will be probably available against which they can be recovered. Tax assets and liabilities are offset, separately for current and deferred taxes, when income taxes are levied by the same tax authority and when there is a legally enforceable offsetting right. Deferred tax assets and liabilities are determined by adopting the tax rates expected to be applicable in the respective jurisdictions of the countries in which the Group companies operate, in the years in which those temporary differences are expected to be recovered or settled.

The other taxes, other than income taxes, are included in "Other operating expenses".

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, and excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year.

For diluted earnings per ordinary share, the weighted average number of shares outstanding during the year is adjusted by assuming the subscription of all the potential deriving shares - for example, by exercising rights on shares with dilutive effects. The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

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 on 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 significant accounting estimates that involve a high level of subjective assumptions and judgments by directors are set out below.

Financial statements area	Accounting estimates
Goodwill impairment	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. This complex valuation process entails the use of methods such as the discounted cash flow method, which uses assumptions to estimate cash flows. 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 tangible and intangible 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 – has been impaired. Both internal and external sources of information are used for this purpose. Identifying the impairment indicators, estimating future cash flows and calculating the fair value of each asset requires the 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-down.
Business combinations	The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the control acquisition date, as well as the possible recognition of goodwill. These values are determined through a complex estimation process.
Lease liabilities and rights of use assets	The value of lease liabilities and corresponding rights of use is determined by calculating the present value of the lease payments, also bearing in mind whether the renewal of the lease is reasonably certain.
Capitalization/deferment of costs	The capitalization/deferment of internal and external costs is a process that entails elements of estimation and valuation. Specifically, it involves the valuation of: i) the likelihood that capitalized costs will be recovered through correlated future revenues; and ii) the effective increase in the future economic benefits embodied in the related asset.
Provision for bad debts	Impairment on trade receivables and on contract 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. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
Depreciation and amortization	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing, and thus on the amount of depreciation and amortization expense.

Accruals, contingent liabilities and employee benefits	As regards the provisions for restoration costs, the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires the valuation of the liabilities arising from such dismantling and restoration obligations, which seldom are entirely defined by laws, administrative regulations or contract clauses, and which normally are to be complied with after an interval of several years. The accruals related to legal, arbitration and fiscal disputes, as well as regulatory proceedings, are the result of a complex estimation process based upon the probability of an unfavorable outcome. Provisions for employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	The recognition of revenues is influenced by estimates of the amount of discounts, rebates and returns to be reported as a direct adjustment to revenues, as well as the methods for defining individual product or service stand-alone selling prices and for determining the duration of the contract when there are renewal options.
Contract costs (IFRS 15)	The recognition of the costs of obtaining and fulfilling contracts is influenced by the estimated expected duration of the relationship with the customer, calculated on the basis of the historical turnover indexes and future estimates. However, this estimate is subject to fluctuations and could only represent customers' future behavior in a limited way, especially if there are new commercial offers or changes in the competitive environment.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the applicable tax laws. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be recovered. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible temporary differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
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., and on the basis of prices existing in regulated markets or quotations provided by financial counterparts. For further details, please also see the Note "Supplementary disclosures on financial instruments".

As per IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) paragraph 10, in the absence of a standard or interpretation that specifically applies to a transaction, the Management shall use its judgment in developing and applying an accounting policy that results in consolidated financial statements that represent faithfully the financial position, financial performance and cash flows of the Group, reflect the economic substance of transactions, and are neutral, prudential and complete in all material aspects.

New standards and interpretations endorsed by the EU and in force from January 1, 2020

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force commencing as of January 1, 2020.

Amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: additional disclosure – Interest-rate benchmark reform

Commission Regulation (EU) 2020/34 was issued on January 15, 2020, implementing amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: recognition and measurement and IFRS 7 – Financial Instruments: additional disclosure.

The amendments refer to some specific hedge accounting requirements and provide facilitation in relation to the potential effects of uncertainty caused by the IBOR reform.

Moreover, the amendments require companies to provide additional disclosure on investors concerning the hedging relations directly affected by these uncertainties.

The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2020.

Amendments to References to the Conceptual Framework in IFRS Standards

On November 29, 2019 was issued, implementing the Commission Regulation (EU) 2019/2075 revised version of the Conceptual Framework for Financial Reporting, at EU level. The main changes with respect to the 2010 version concern:

- a new chapter on measurement;
- better definitions and guidance, particularly with regard to the definition of liabilities;
- clarifications of important concepts, such as "stewardship", prudence and uncertainty in measurements.

A document was also published updating references in IFRS to the previous Conceptual Framework.

The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2020.

Amendments to IAS 1 and IAS 8 (Definition of Material)

On November 29, 2019, Commission Regulation (EU) 2019/2104 was issued, implementing some amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

These amendments clarify the definition of "material" and align the definition used in the "Conceptual Framework" with that used in individual IFRS. The definition of "material", as revised by the amendments, is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2020.

Amendments to IFRS 3 (Business Combinations)

On April 21, 2020, Commission Regulation (EU) 2020/551 was issued, implementing some amendments to IFRS 3 (Business Combinations). These amendments concern the definition of "business" and help the entity determine whether an acquisition is a "business" or a group of assets.

Based on the new definition, a business is: "An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. The amendments also clarify that in order to be considered a business, an acquisition must include inputs and a substantial process, that together contribute to the ability to generate outputs".

The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2020.

Amendments to IFRS 16 Leases for concessions related to COVID -19

On October 9, 2020, Regulation EU 2020/1434 was issued, endorsing various amendments to IFRS 16 to simplify matters for lessees in the recognition of rent concessions due to COVID-19.

By way of practical expedient, a lessee can choose not to consider that a reduction in rental charges granted by a lessor constitutes an amendment to the lease contract. This practical expedient only applies to reductions in rents that are a direct consequence of COVID-19 and only if all the conditions envisaged by the amendment in question are met.

A lessee applying this practical expedient must provide a disclosure.

These changes must be applied retrospectively for all years starting after June 1, 2020. Early application is permitted.

The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2020.

New Standards and Interpretations issued by IASB but not yet applicable

At the date of preparation of these consolidated financial statements, the IASB had issued the following new Standards and Interpretations which have not yet come into force and have not yet been endorsed by the EU:

New Standards / Interpretations adopted by UE but not yet applicable	
Amendments to IFRS 4 Insurance contracts – Deferment of IFRS 9	1/01/2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of the interest rates benchmark - Phase 2	1/01/2021
New Standards and Interpretations not yet in force and not yet endorsed by the EU	
Amendments to: IFRS 3 Business combinations; IAS 16 Property, Plant and equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Annual cycle of improvements 2018-2020	1/01/2022
Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current	1/01/2023
Amendments to IAS 1 Presentation of Financial Statements: Information regarding accounting standards	1/01/2023
Amendments to IAS 8 Accounting Standards, changes in accounting estimates and Errors: Definition of estimates	1/01/2023
IFRS 17 (Insurance contracts), including amendments to IFRS 17	1/01/2023

The potential impacts on the Group consolidated financial statements from the application of these standards and interpretations are currently being assessed.

With regard to the process of reforming benchmark interest rates, no particular impact on the hedges in Hedge Accounting is expected in 2021.

More specifically, TIM has adhered to the 2020 IBOR Fallback Protocol published by the ISDA on October 23, which defines the fallback mechanisms (compounded RFR in arrears plus a spread adjustment) following the realization of a permanent cessation trigger or pre-cessation trigger; the switch must in any case not cause any major changes in cash flow hedges to the fixed-rate underlyings in currency nor to the fair value hedges of underlyings in euros (the process of replacing the Euribor would appear to be late in respect of that of the Libor).

The situation that requires the closest attention and analysis is that of the variable rate intercompany loans hedged in Hedge Accounting on TIM S.p.A.; if, on the one hand, adhesion to the ISDA protocol assures the adjustment of the derivative conditions, the possibility will be monitored to accordingly also adjust the underlying items, so as to safeguard the effectiveness of the hedges.

NOTE 3

SCOPE OF CONSOLIDATION

Investments in consolidated subsidiaries

Composition of the Group

TIM 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 TIM Group".

Scope of consolidation

The changes in the scope of consolidation at December 31, 2020 compared to December 31, 2019 are listed below.

Entry/exit/merger of subsidiaries into/out of the scope of consolidation:

Company		Business Unit	Month
Entry:			
NOOVLE S.r.l.	New acquisition	Domestic	May 2020
GLOBAL SPACE TRE S.r.l.	New acquisition	Domestic	May 2020
NOOVLE AI S.r.l.	New acquisition	Domestic	May 2020
NOOVLE FRANCE Sasu	New acquisition	Domestic	May 2020
NOOVLE INTERNATIONAL SAGL	New acquisition	Domestic	May 2020
NOOVLE MALTA Ltd	New acquisition	Domestic	May 2020
NOOVLE SICILIA S.c.a.r.l.	New acquisition	Domestic	May 2020
NOOVLE SLOVAKIA S.r.o.	New acquisition	Domestic	May 2020
DAPHNE 3 S.p.A.	New establishment	Domestic	July 2020
TIM MY BROKER S.r.l.	New establishment	Domestic	August 2020
NOOVLE S.p.A.	New establishment	Domestic	October 2020
FIBERCOP S.p.A.	New establishment	Domestic	November 2020
FIBERCO SOLUÇÕES DE INFRAESTRUTURA LTDA	New establishment	Brazil	December 2020
Exit:			
INFRASTRUTTURE WIRELESS ITALIANE S.p.A. (INWIT S.p.A.)	Dilution	Domestic	March 2020
TI SPARKLE BOLIVIA S.r.l.	Liquidated	Domestic	November 2020
Mergers:			
TIM PARTICIPAÇÕES S.A.	Merged into TIM S.A.	Brazil	September 2020
TN FIBER S.r.l.	Merged into TIM S.p.A.	Domestic	September 2020
TIMVISION S.r.l.	Merged into TIM S.p.A.	Domestic	October 2020
H.R. SERVICES S.r.l.	Merged into TIM S.p.A.	Domestic	December 2020

With reference to INWIT S.p.A., on March 31, 2020, the merger through absorption of Vodafone Towers S.r.l. with INWIT S.p.A. was completed. The transaction, which enabled the creation of Italy's leading tower operator,

diluted the TIM Group's stake in the capital of INWIT from 60% to 37.5%; therefore, as of March 31, 2020, INWIT S.p.A. is accounted for using the equity method.

INWIT S.p.A. was presented as "Asset held for sale" from the Consolidated Financial Statements as at December 31, 2019 and until the completion of the aforementioned merger; therefore, TIM Group consolidated economic data and cash flows for FY 2020 include economic data and cash flows of INWIT S.p.A. for the first quarter of 2020, net of amortization and depreciation for the period, as required by IFRS 5.

Also:

- on April 23, 2020, through an accelerated book-building procedure reserved to institutional investors, TIM S.p.A. transferred a share package of 4.3% of INWIT's share capital;
- on October 2, 2020, TIM and Ardian, world leading private investment firm operating in infrastructures, completed the agreement announced on June 24, 2020 for a partial sharing of the investment in INWIT. The operation entailed the purchase by a consortium of institutional investors led by Ardian of 49% of Daphne 3, a newly-established holding company controlled by TIM, to which TIM contributed 30.2% of the shares of INWIT. The holding company has taken over from TIM - for the portion of INWIT shares transferred - in the shareholders' agreement stipulated between TIM and Vodafone, by virtue of which, they jointly control INWIT;
- the residual direct equity investment held by TIM S.p.A. in INWIT, equal to around 3% of the share capital, of INWIT, has been sold to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited. More specifically, on October 2, 2020, 1.2% was first sold and then on December 4, 2020, the remaining 1.8%.

For further details, see the note "Investments".

The breakdown by number of subsidiaries and associates of the TIM Group is as follows:

Companies:	12.31.2020		Total
	Italy	Overseas	
subsidiaries consolidated line-by-line	20	46	66
joint ventures accounted for using the equity method	2	—	2
associates accounted for using the equity method	10	—	10
Total companies	32	46	78

Companies:	12.31.2019		Total
	Italy	Overseas	
subsidiaries consolidated line-by-line	16	43	59
joint ventures accounted for using the equity method	—	—	—
associates accounted for using the equity method	12	—	12
Total companies	28	43	71

Further details are provided in the Note "List of companies of the TIM Group".

Subsidiaries with a significant non-controlling interest

At December 31, 2020, the TIM Group held investments in subsidiaries, with significant non-controlling interest, in relation to the 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 interest accounted at December 31, 2020 for 33.4% of the capital of TIM S.A., coinciding with the corresponding voting rights.

Financial Position Data Tim Brasil group

(million euros)	12.31.2020	12.31.2019
Non-current assets	5,246	7,538
Current assets	1,662	1,896
Total Assets	6,908	9,434
Non-current liabilities	1,558	2,104
Current liabilities	1,339	1,847
Total Liabilities	2,897	3,951
Equity	4,011	5,483
<i>of which Non-Controlling Interests</i>	<i>1,232</i>	<i>1,681</i>

Income statement Data TIM Brasil group

(million euros)	2020	2019
Revenues	2,933	3,937
Profit (loss) for the year	297	799
<i>of which Non-Controlling Interests</i>	<i>104</i>	<i>272</i>

Financial Data of the TIM Brasil group

The aggregate cash flows generated in 2020 was - 93 million euros, with a negative exchange rate effect of 151 million euros, without which cash flow would have generated a positive amount of 58 million euros.

In 2019, aggregate cash flows generated a positive amount of 262 million euros, essentially due to a negative exchange rate effect of 12 million euros, without which cash flow would have generated a positive 274 million euros.

Lastly, again with reference to the TIM Brasil group and in accordance with the amount shown in the Report on Operations - “Main risks and uncertainties” section, the main risk factors that could lead, even significantly, to restrictions on 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

BUSINESS COMBINATIONS

Acquisition of control on the Noovle Group

On May 21, 2020, TIM S.p.A. finalized the acquisition of 100% of the shares in Noovle S.r.l., an Italian ICT consulting and system integration company, specialized in supplying cloud solutions and projects and one of Google Cloud's leading partners on the Italian market.

With effect from this date, Noovle S.r.l. and its subsidiaries (Noovle group) have been consolidated line-by-line. The transaction enables TIM to expand its offering of innovative public, private and hybrid cloud services, and consolidate expertise to accelerate the digitalization of companies, from SMEs to large industries, the public administration and health sector.

The business combination was recognized in the accounts as follows:

- a consideration of 13 million euros.
- all Assets acquired and Liabilities undertaken of the acquired companies were measured for recognition at fair value.
- in addition to the value of the Assets acquired and Liabilities undertaken, Goodwill equal to 11 million euros was recognized, along with Other intangible assets for 4 million euros and Deferred tax liabilities for 1 million euros, determined as shown in the next few tables:

(million euros)		Values at fair value
Valuation of the consideration	(a)	13
Value of assets acquired	(b)	31
Value of liabilities undertaken	(c)	(32)
Goodwill, Other intangible assets and Deferred tax liabilities	(a-b-c)	14

Noovle Group – values at acquisition date

(million euros)		Values at fair value	Carrying amounts
Goodwill		11	-
Other non-current assets		7	3
Current assets		28	28
of which Cash and cash equivalents		1	1
Total assets	(a)	46	31
Total non-current liabilities		4	3
Of which Non-current financial liabilities		2	2
Total current liabilities		29	29
Of which Current financial liabilities		2	2
Total liabilities	(b)	33	32
Net assets	(a-b)	13	(1)

Note also that if the acquisition of Noovle S.r.l. and its subsidiaries had been completed on 1 January 2020, the consolidated financial statements of the TIM Group as at December 31, 2020 would have recorded revenues approximately 14 million euros higher, with insignificant effects on the net result for the year.

NOTE 5

GOODWILL

Goodwill shows the following breakdown and changes for 2019 and 2020:

(million euros)	12.31.2018	Increase	Decrease	Impairment	Exchange differences	Held for sale INWIT	12.31.2019
Domestic	25,899	—	(68)	—	—	(3,600)	22,231
Brazil	870	—	—	—	(18)	—	852
Other activities	—	—	—	—	—	—	—
Total	26,769	—	(68)	—	(18)	(3,600)	23,083

(million euros)	12.31.2019	Increase	Decrease	Impairment	Exchange differences	12.31.2020
Domestic	22,231	11	—	—	—	22,242
Brazil	852	—	—	—	(247)	605
Other activities	—	—	—	—	—	—
Total	23,083	11	—	—	(247)	22,847

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment on at least an annual basis, when preparing the company's consolidated financial statements.

In 2020, Goodwill fell by 236 million euros, from 23,083 million euros at the end of 2019 to 22,847 million euros at December 31, 2020. In detail:

- With reference to the Domestic cash generating unit, the item records an increase of 11 million euros relative to the booking of goodwill connected with the acquisition of Noovle S.r.l. and its subsidiaries (for more details, see the note on "Business combinations");
- the figure also fell by 247 million euros due to exchange differences on goodwill allocated to the Brazil CGU.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the Cash-Generating Units – CGUs) to December 31, 2020 and 2019 can be summarized as follows:

(million euros)	12.31.2020			12.31.2019		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	38,687	(16,445)	22,242	38,676	(16,445)	22,231
Brazil	751	(146)	605	1,055	(203)	852
Other activities	—	—	—	—	—	—
Total	39,438	(16,591)	22,847	39,731	(16,648)	23,083

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.

The impairment test was carried out in two phases: in the first phase, the recoverable amount of the assets attributed to the individual CGUs to which goodwill is allocated was estimated; in the second phase, analyses were carried out considering the Group's activities as a whole, which did not show any impairment.

As regards the checks referred to in the first phase, the cash generating units (or groups of units) to which goodwill is allocated are as follows:

Segment	Cash-Generating Units (or groups of units)
Domestic	Domestic
Brazil	Brazil

According to the applicable accounting rules, the “recoverable value” of the CGUs was equal to the higher of “fair value net of disposal costs” and “value in use”.

The value configurations used to determine the recoverable value at December 31, 2020 of the CGUs in question were for Domestic the value in use and for Brazil the fair value. Specifically, for Brazil the fair value was determined on the basis of the market capitalization at the end of the year.

The values are expressed in local currency, and hence in EUR for the Domestic CGUs and BRL for the Brazil CGU. For the Brazil CGU, the recoverable amount of the assets was denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.

For the Domestic CGU, the value in use estimate was made – in accordance with IAS 36 and with valuation principles and best practices – based on the expected cash flows in different scenarios. The various expected cash flows were then summarized into an average normal cash flow, determined with the aid of Experts (expert appraisers and industry experts) and based on the data from the 2021-2023 Business Plan approved by the Board of Directors. In particular, expected average cash flows were measured for the three years of the 2021-2023 Business Plan, plus an additional two years on the basis of extrapolated data, for which future cash flows were explicitly forecast for a period of five years (2021-2025). The extrapolation of data for 2024-2025 enabled market and competition trends that will become manifest beyond the time horizon of the Business Plan to be captured.

As regards the estimate of the terminal value, the sustainable long-term cash flow was assumed to be the extrapolation of the estimated cash flow at 2025, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure. Furthermore, with specific reference to the incremental share of the value deriving from 5G license use, and therefore from the development of new and innovative business areas, a measurement model has been adopted that takes into account the net incremental flows for a defined period of time which is based on the duration of the license. This approach is consistent with the need to include in the configuration of value, on one hand the outflows deriving from the payment of the license (2019 - 2022) and the Capex to support its development (as per the Business Plan), and on the other the positive net flows from the incremental business component of the license acquisition that will develop over a broad period of time and over the 5 years of explicit forecast.

The 2021-2023 Business Plan incorporates various assessments on the potential exogenous and endogenous risks as well as the related action taken to combat and respond to such, also taking into account the current COVID-19 epidemiological emergency. In order to define the average normal cash flow for the impairment test, the management, with the aid of Experts, identified additional risk factors, making changes to the amounts and/or in the time distribution of future cash flows, giving greater weight to the external evidence available.

The cost of capital used to discount the future cash flows in the estimates of value in use:

- was estimated using the Capital Asset Pricing Model (CAPM), which is one of the generally accepted application criteria referred to in IAS 36;
- reflects the current market estimates of the time value of money and the specific risks of the groups of assets; includes appropriate yield premiums for country risk;
- it was calculated using comparative market parameters to estimate the “Beta coefficient” and the weighting coefficient of the equity and debt capital components;

For the Domestic CGU it was as follows:

- the weighted average cost of capital (WACC rate) used to discount the future cash flows and the equivalent rate before tax;
- details are also provided of the growth rate used to estimate the residual value after the explicit forecast period (the G-Rate), expressed in nominal terms and related to the cash flows in their functional currency;
- implicit capitalization rates resulting from the difference between the cost of capital, after tax, and the G-Rate.

Significant parameters for the estimates of value in use

	Domestic
WACC	4.73%
WACC before tax	6.33%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate after tax (WACC-g)	4.23%
Capitalization rate before tax (WACC-g)	5.83%
Capex/Revenues, perpetual	19.2%

The growth rate of the terminal value “g” of the Domestic CGU was estimated taking into account the expected outlook during the explicit forecast period and is consistent with the range of growth rates applied by analysts who monitor TIM shares.

The phase of capital expenditure, competitive positioning and the technological infrastructure operated were taken into account in estimating the level of investment needed to sustain the perpetual development of cash flows after the explicit forecast period.

In addition to average normal cash flows, to take into account the market operator’s perspective, sensitivity analyses were conducted on the risk factors identified with the Experts to determine the value in use of the Domestic CGU.

The differences between recoverable amounts and net carrying amounts for the CGUs considered totalled:

(million euros)	Domestic	Brazil
Difference between recoverable and net carrying amounts	+14,313	+1,395

Therefore, given all the above elements, no impairment losses were recorded in 2020; the goodwill values recognized in the financial statements are therefore confirmed.

In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. Below are the parameters that, if considered individually and on a consistent basis, make the recoverable value equal to the net carrying amount.

Parameters that make the value in use equal to the carrying amount

	Domestic
WACC before tax	8.32%
Capitalization rate before tax (WACC-g)	7.82%
Capex/Revenues, perpetual	27.20%

With regard to the Brazilian CGU, the change in the price per share, compared to the reference quotation considered for the purposes of the financial statements, which would make the recoverable value equal to the carrying amount is equal to -25%.

In addition to average normal cash flows, to take into account the market operator’s perspective, sensitivity analyses were conducted on the main risk factors identified with the Experts and to determine the value in use of the Domestic CGU. As a result of these analyses, the recoverable value is in any case higher than the net carrying amount.

NOTE 6

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The item decreased by 927 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 reclassifications	Investments	Depreciation and amortization	(Impairment losses) Reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	Held for sale INWIT	12.31.2019
Industrial patents and intellectual property rights	2,095		726	(1,187)			(14)		481	(1)	2,100
Concessions, licenses, trademarks and similar rights	3,261	(445)	15	(486)			(23)		2,076		4,398
Other intangible assets	33		2	(2)					(30)		3
Work in progress and advance payments	3,500		346			(1)	2	9	(2,680)	(10)	1,166
Total	8,889	(445)	1,089	(1,675)	—	(1)	(35)	9	(153)	(11)	7,667

(million euros)	12.31.2019	Investments	Depreciation and amortization	(Impairment losses) Reversals	Disposals	Exchange differences	Other changes	12.31.2020
Industrial patents and intellectual property rights	2,100	649	(1,152)			(195)	387	1,789
Concessions, licenses, trademarks and similar rights	4,398	6	(473)			(288)	2	3,645
Other intangible assets	3	—	(2)			(1)	4	4
Work in progress and advance payments	1,166	542			(1)	(12)	(393)	1,302
Total	7,667	1,197	(1,627)	—	(1)	(496)	—	6,740

Investments in 2020 amounted to 1,197 million euros (1,089 million euros in 2019) and included 231 million euros in internally generated assets (238 million euros in 2019). Further details are provided in the Note “Internally generated assets”.

Industrial patents and intellectual property rights at December 31, 2020 essentially consist of applications software purchased outright and user license rights acquired, amortized over a period between 2 and 5 years, relating to TIM S.p.A. (1,303 million euros) and the Brazil Business Unit (429 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2020 mainly refer to the residual cost of telephone licenses and similar rights (3,000 million euros for TIM S.p.A., 601 million euros for the Brazil Business Unit). Compared with December 31, 2019, the item reduces by 753 million euros, mainly due to the period amortization/depreciation for 473 million euros, in addition to the exchange effect for -288 million euros.

The residual amount of telephone licenses and similar rights in operation at December 31, 2020 (3,601 million euros) and their useful lives are detailed below:

Type	Residual amount at 12.31.2020 (million euros)	Useful life (years)	Maturity:	Amortization expense for 2020 (million euros)
TIM S.p.A.:				
UMTS	134	18	12.31.2021	134
UMTS 2100 MHz	7	12	12.31.2021	7
WiMax	2	15	05.31.2023	1
LTE 1800 MHz	77	18	12.31.2029	9
LTE 800 MHz	540	17	12.31.2029	60
LTE 2600 MHz	60	17	12.31.2029	6
1452-1492 MHz band	148	14	12.31.2029	16
900 and 1800 MHz band	493	11	12.31.2029	55
3600-3800 MHz band (5G)	1,509	19	12.31.2037	89
26.5-27.5 GHz band (5G)	30	19	12.31.2037	2
Tim Brasil group:				
GSM and 3G (UMTS)	50	15	From 2023 to 2031	21
4G (LTE - 700 MHz)	551	15	2030	67

Work in progress and advance payments mainly refer to the Parent (1,197 million euros) of which 680 million euros related to rights in 694-790 MHz (5G) bandwidth frequencies, not yet operating, of TIM S.p.A. They also include work in progress mainly related to software developments and investments for the digital evolution of Network Infrastructures. “Other changes” refers to the commissioning that took place during the year.

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	12.31.2019			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	11,312	—	(9,212)	2,100
Concessions, licenses, trademarks and similar rights	8,726	—	(4,328)	4,398
Other intangible assets	612	—	(609)	3
Work in progress and advance payments	1,166	—	—	1,166
Total intangible assets with a finite useful life	21,816	—	(14,149)	7,667

(million euros)	12.31.2020			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	10,852	—	(9,063)	1,789
Concessions, licenses, trademarks and similar rights	8,100	—	(4,455)	3,645
Other intangible assets	460	—	(456)	4
Work in progress and advance payments	1,302	—	—	1,302
Total intangible assets with a finite useful life	20,714	—	(13,974)	6,740

With regard to the gross carrying amounts of intangible assets with a finite useful life, in 2020, disposals of 324 million euros were made by the Parent Company, relating to intellectual property rights, fully amortized, which mainly concerned obsolete releases of system software.

NOTE 7

TANGIBLE ASSETS

Property, plant and equipment owned

The item decreased by 870 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 reclassifications	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	Held for sale INIA/IT	12.31.2019
Land	250		3					3	(30)	226
Buildings (civil and industrial)	588		6	(38)				21		577
Plant and equipment	12,096	(1)	1,792	(2,272)		(21)	(43)	633	(210)	11,974
Manufacturing and distribution equipment	31		5	(12)				2		26
Other	358	(27)	118	(147)		(3)	(3)	54		350
Construction in progress and advance payments	928		720			(4)	(2)	(739)	(45)	858
Total	14,251	(28)	2,644	(2,469)	—	(28)	(48)	(26)	(285)	14,011

(million euros)	12.31.2019	Investments	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12.31.2020
Land	226	9			(3)	(3)		229
Buildings (civil and industrial)	577	18	(35)		(1)	(5)	23	577
Plant and equipment	11,974	1,491	(2,115)		(7)	(623)	486	11,206
Manufacturing and distribution equipment	26	4	(11)				3	22
Other	350	102	(140)		(1)	(36)	34	309
Construction in progress and advance payments	858	514		(8)	(2)	(34)	(530)	798
Total	14,011	2,138	(2,301)	(8)	(14)	(701)	16	13,141

Land comprises both built-up land and available land and is not subject to depreciation. The figure for December 31, 2020 refers primarily to TIM S.p.A. (217 million euros)

Buildings (civil and industrial) almost exclusively include buildings for industrial use hosting telephone exchanges, or for office use and light constructions. The figure for December 31, 2020 referred primarily to TIM S.p.A. (553 million euros).

The item **Plant and machinery** includes the technological infrastructure used for the provision of telecommunications services (transport and distribution of voice/data traffic). The figure for December 31, 2020 referred primarily to TIM S.p.A. (8,662 million euros) and the Brazil Business Unit (1,546 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the operation and maintenance of plant and equipment and refers mainly to TIM S.p.A.

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

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

In 2020, investments were down by 506 million euros compared to the previous year, not only due to the exchange rate trends but mainly following the different timing of FTTCab development programs and network investments in general, in addition to the lesser tangible investments necessary to the development of the Parent Company's Core Network, characterized by a technological evolution that is ever more driven towards automation and digitization. They include 271 million euros of internally generated assets (299 million euros in 2019); further details are provided in the Note "Internally generated assets".

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

Depreciation for the years 2020 and 2019 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)	2% - 5,55%
Plant and equipment	3% - 50%
Manufacturing and distribution equipment	20 %
Other	10% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	12.31.2019			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	229	(3)		226
Buildings (civil and industrial)	1,890	—	(1,313)	577
Plant and equipment	70,293	(12)	(58,307)	11,974
Manufacturing and distribution equipment	317	(1)	(290)	26
Other	3,323	(2)	(2,971)	350
Construction in progress and advance payments	858			858
Total	76,910	(18)	(62,881)	14,011

(million euros)	12.31.2020			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	232	(3)		229
Buildings (civil and industrial)	1,907	—	(1,330)	577
Plant and equipment	69,814	(12)	(58,596)	11,206
Manufacturing and distribution equipment	324	(1)	(301)	22
Other	3,152	(2)	(2,841)	309
Construction in progress and advance payments	806	(8)		798
Total	76,235	(26)	(63,068)	13,141

With regard to the gross carrying amounts of tangible assets, it is worth mentioning that in 2020, TIM S.p.A. carried out disposals for a total value of 425 million euros, mainly in relation to fully depreciated assets. The assets most affected were: civil buildings (13 million euros), switching systems (9 million euros), infrastructures and broadband connections (147 million euros), rented equipment (46 million euros), poles (33 million euros) and underground and aerial network (157 million euros).

NOTE 8

RIGHTS OF USE ASSETS

The item decreased by 502 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 reclassifications	Adoption of IFRS 16	Investments	Increases in lease contracts	Depreciation and amortization	Disposals	Exchange differences	Other changes	Held for sale INWIT	12.31.2019
Property	—	1,408	2,388	39	797	(475)	(56)	(9)	(61)	(633)	3,398
Plant and equipment	—	747	1,082	20	322	(264)	(1)	(23)	20	(2)	1,901
Other	—	149	33		21	(44)	(3)		(4)	(1)	151
Construction in progress and advance payments	—	64	—	17					(37)		44
Total	—	2,368	3,503	76	1,140	(783)	(60)	(32)	(82)	(636)	5,494

(million euros)	12.31.2019	Investments	Increases in lease contracts	Depreciation and amortization	Disposals	Exchange differences	Other changes	12.31.2020
Property	3,398	12	869	(397)	(112)	(129)	(730)	2,911
Plant and equipment	1,901	30	396	(252)	(234)	(335)	403	1,909
Other	151		23	(39)	(4)	(2)	(8)	121
Construction in progress and advance payments	44	32					(25)	51
Total	5,494	74	1,288	(688)	(350)	(466)	(360)	4,992

FY 2020 investments primarily refer to the Domestic Business Unit (62 million euros) and to the Brazil Business Unit (12 million euros) and mainly relate to the acquisition of IRU transmission capacity and improvements and incremental expenses incurred on leased third-party movable or immovable property. Investments in work in progress and advance payments mainly relate to improvements in progress.

Since March 31, 2020, the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A., now jointly controlled by TIM-Vodafone, has been in effect, regulating hosting services on INWIT sites.

In particular, the MSA regulates the following services:

- the availability of the electromagnetic and physical space for the installation and management of necessary equipment for the provision of mobile service and services for the supply of power and air conditioning systems;
- monitoring and security services;
- management and maintenance services;
- electricity supply service;
- measurement and monitoring service of the physical and electromagnetic space.

It is a set of services to guarantee operators (TIM and Vodafone) the management of technological devices, which use the frequencies that are currently available to the two Operators, functional to the provision of mobile services to customers.

The effectiveness of the new MSA contract, which comes under the scope of the operation involving the establishment - through the merger by incorporation of Vodafone Towers S.r.l. in INWIT - of the first Italian Tower Operator, has resulted in the following on a consolidated level:

- the derecognition of rights of use related with previous lease agreements stipulated with Vodafone (266 million euros included in the “Disposals” flow). The termination of previous lease agreements led to the recognition of net capital losses for approximately 2 million euros in the separate consolidated income statement.
- the recognition of new rights of use for INWIT S.p.A. (Increases from finance lease agreements”) and a corresponding financial liability for 368 million euros;
- the derecognition of liabilities with Vodafone, related to previous lease agreements.

The new MSA also provides for accounting for the amounts in costs for services on an accruals basis, with the exception of the 3,500 strategic sites, which are accounted for as leases under IFRS 16, for a duration of 8 years, given that control of those strategic sites still belongs to TIM S.p.A.

The increases in finance leasing contracts in FY 2020, equal to 1,288 million euros, refer in particular to the Domestic Business Unit (781 million euros) and the Brazil Business Unit (507 million euros).

These increases include the higher value of the rights of use recorded as a result of new leases, increases of lease payments and renegotiations of agreements existing both land and buildings for office use and industrial relationship over time, to infrastructure sites for the mobile telephone network infrastructure and network.

In accordance with IFRS 16 (Leases), 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.

In FY 2020, we note the increase of 368 million euros in connection with the recording, for the portion that can be classified as a “lease”, of the specified new MSA contract stipulated with INWIT.

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

The disposals are representative of the carrying amount of the assets from lease agreements that terminated early. In FY 2020, the aforementioned impact associated with the derecognition of the rights of use connected with the previous lease agreements entered into with Vodafone (266 million euros) is noted.

Other changes included, inter alia, transfers to operating activities and the lower value of the rights of use recorded as a result of contractual changes during the year. In 2020, they mainly refer to the Brazil Business Unit (-248 million euros) and the Domestic Business Unit (-112 million euros).

The item **Property** includes buildings and land under passive leases and the related building adaptations, essentially attributable to the Parent (2,588 million euros) and the Brazil Business Unit (298 million euros).

The item **Plant and equipment** mainly includes rights of use on infrastructures for telecommunications services. These refer to the Brazil Business Unit (880 million euros), the Parent (825 million euros) and the Telecom Italia Sparkle group (204 million euros). This includes, inter alia, 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 a finance lease.

The item **Other** mainly comprises the leases on motor vehicles.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	12.31.2019			
	Gross carrying amount	Accumulated impairment	Accumulated depreciation	Net carrying amount
Property	5,332	(13)	(1,921)	3,398
Plant and equipment	2,832	(278)	(653)	1,901
Other	276		(125)	151
Construction in progress and advance payments	44			44
Total	8,484	(291)	(2,699)	5,494

(million euros)	12.31.2020			
	Gross carrying amount	Accumulated impairment	Accumulated depreciation	Net carrying amount
Property	5,075	(13)	(2,151)	2,911
Plant and equipment	3,047	(271)	(867)	1,909
Other	267		(146)	121
Construction in progress and advance payments	51			51
Total	8,440	(284)	(3,164)	4,992

Impairment losses on “Plant and equipment”, mainly relating to prior years, refers to the Indefeasible Rights of Use (IRU) for the transmission capacity and cables for international connections acquired by the Telecom Italia Sparkle group.

With reference to the gross carrying amounts of rights of use of third-party assets, in 2020 TIM S.p.A. carried out disposals for a total value of 1,553 million euros, in particular relating to: leased properties (1,161 million euros), base transceiver stations (278 million euros), leased land (64 million euros), improvements in third party establishments (17 million euros), rights of use of IRU fiber (13 million euros) and leased cars (12 million euros).

NOTE 9

INVESTMENTS

Investments in associates and joint ventures accounted for using the equity method

Investments in associates and joint ventures accounted for using the equity method are reported below in detail.

(million euros)		12.31.2020	12.31.2019
Tiglio I		1	1
NordCom		5	5
W.A.Y.		4	3
Other		3	2
Total Associates	(a)	13	11
TIMFin		2	
INWIT		2,713	—
Total Joint Ventures	(b)	2,715	—
Total investments accounted for using the equity method	(a+b)	2,728	11

The changes in this item are broken down as follows:

(million euros)	12.31.2018	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	12.31.2019
Tiglio I	5			(4)		1
Nordcom	5					5
W.A.Y.	3					3
Other	3		(1)	1	(1)	2
Total Associates	16	—	(1)	(3)	(1)	11
Alfiere	—	1	(1)			—
Total Joint Ventures	—	1	(1)			—
Total investments accounted for using the equity method	16	1	(2)	(3)	(1)	11

(million euros)	12.31.2019	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	12.31.2020
Tiglio I	1					1
Nordcom	5					5
W.A.Y.	3			1		4
Other	2	1				3
Total Associates	11	1	—	1	—	13
TIMFin		3		(1)		2
INWIT	—	—	(659)	(238)	3,610	2,713
Total Joint Ventures	—	3	(659)	(239)	3,610	2,715
Total investments accounted for using the equity method	11	4	(659)	(238)	3,610	2,728

The list of **investments accounted for using the equity method** is presented in the Note "List of companies of the TIM Group".

Investments in associates accounted for using the equity method of the TIM Group are not material either individually or in aggregate form.



With reference to the INWIT equity investment, it is recalled that since March 31, 2020, following the merger into INWIT S.p.A. of Vodafone Tower S.r.l., with consequent dilution of the equity investment held by TIM in the capital of the company from 60% to 37.5%, it has been measured using the equity method (for further details, see the note "Scope of consolidation").

Such dilution resulted in the recognition of a net capital gain for 441 million euros in the ambit of "Other income from investment" in the separate consolidated income statement of the TIM Group.

Similarly to that done by INWIT, the valuation using the equity method flow includes the portion pertaining to the positive economic result of the investee including the greater amortization charge, at consolidated level, of the assets to which part of the greater value deriving from the corporate integration transaction of Vodafone Towers S.r.l. in INWIT was allocated.

With reference to the changes to the INWIT equity investment during FY 2020:

- the flow "other changes" includes the carrying amount of the equity investment at March 31, 2020 following the deconsolidation of the company;
- the "disposals and reimbursements of capital" flow includes the effects deriving from the sale of:
 - a share package equal to 4.3% of the share capital of INWIT, through an accelerated book-building procedure reserved for institutional investors completed on April 23, 2020;
 - a share package equating to 1.2% of the share capital of INWIT sold on October 02, 2020 to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited;
 - a share package equating to 1.8% of the share capital of INWIT in respect of the exercise of a purchase option on December 4, 2020 by the SPV established by Canson Capital Partners (Guernsey) Limited.

These disposals led to a comprehensive gross inflow of approximately 670 million euros for the TIM Group and the recognition of a comprehensive capital gain of 11 million euros in the ambit of "Other income from investment" in the Separate Consolidated Income Statement.

- the "valuation using the equity method" flow includes the portion pertaining to the positive economic result of the investee including, similarly to that done by INWIT, the greater amortization charge, at consolidated level, of the assets to which part of the greater value deriving from the corporate integration transaction of Vodafone Towers S.r.l. in INWIT (18 million euros) has been allocated. This flow also includes the reduction in the carrying amount of the equity investment for dividends received during the year (256 million euros).

As per the agreement signed on March 25, 2020, the INWIT shares in TIM's portfolio became subject to a shareholders' agreement with Vodafone Europe BV, which has identically conferred its entire stake in INWIT under the agreement, with consequent joint control of TIM and Vodafone Europe on the company, without carrying out management and coordination activities. Each of the two partners has undertaken not to purchase INWIT shares in any capacity, without the prior consent of the other, and in any case to refrain from any deed that involves the obligation to make a mandatory public purchase offer on INWIT.

TIM and Vodafone Europe have undertaken to ensure that the INWIT Board of Directors, for the entire duration of the agreement (as per law: three-year period), provides for the presence – without prejudice to the appointment mechanisms provided for in the articles of association – of an equal number of directors appointed respectively by TIM and Vodafone Europe. (i) alternation between the directors of the two parties for the selection of chairman and chief executive officer (who for the duration of the agreement will not be chosen from among the directors appointed by the same party), in the absence of a different agreement, as well as (ii) the renewal of the collective body before the expiry of the agreement are also provided for.

TIM and Vodafone Europe have also undertaken to consult each other with due advance notice on the agenda of each INWIT meeting, possibly identifying a common approach, to which, however, they will not be bound. In

the event that the strengthened majority required by the INWIT articles of association for the adoption of decisions on certain matters should not be reached during two consecutive meetings, a deadlock procedure may be activated, with a committee made up of two representatives from each party tasked with resolving the matter. Moreover, unless otherwise agreed in writing, the parties to the agreement will not be bound by the decision taken by the committee and will be able to freely exercise their voting rights at the meeting.

After a decision by the INWIT Board of Directors (which will take into account, among other things, the business plan, growth and cash flow expectations, rating considerations and strategic options available), TIM and Vodafone Europe have agreed that INWIT will aim to distribute an annual dividend corresponding to at least 80% of the net profits resulting from the financial statements, adjusted for one-off and extraordinary items. They noted that INWIT's initial leverage should not exceed 6.0x net financial debt/EBITDA and that it will be reduced over time to obtain medium-term leverage in line with the capital structure of other listed companies operating in the same sector.

TIM and Vodafone Europe have undertaken not to transfer the investment held in INWIT, without prejudice to (i) joining take over bids and/or exchange offers promoted by third parties; (ii) the transfer to third parties with the prior written consent of the other party adhering to the agreement; (iii) the transfer to another company directly or indirectly controlled by, controlling, or subject to joint control with, the transferring party, provided that the transferee adheres to the agreement and the obligation to re-transfer the shareholding to the transferring shareholder is expressly provided if the relationship between the transferee and the transferring party ceases.

On June 24, 2020, TIM and Vodafone Europe signed a specific agreement for the partial exemption from the lock-up and standstill commitment to allow:

- the signing of an agreement between TIM and Ardian for the acquisition by a consortium of investors led by Ardian of 49% of a newly created vehicle controlled by TIM ("TIM SPV" now Daphne 3), which was to purchase, in part by contribution in kind and in part through a sale and purchase transaction, a total number of INWIT shares from TIM representing 30.2% of the relative share capital, it being understood that TIM SPV would have to sign a consent agreement to the shareholders' agreement between Vodafone Europe and TIM, of which TIM will also remain a part as long as it directly holds INWIT shares;
- the transfer, by Vodafone Europe to third parties, of all or part of its investment in INWIT, subject to the retaining of a direct or indirect stake of at least 25.1% of the share capital of the company with right to vote. In the event that a stake should be reached of 25.1% in the share capital of INWIT, TIM and TIM SPV will in turn have the right to transfer all or part of their stake in INWIT, on condition that they continue to hold jointly at least 25.1% of the INWIT share capital with voting rights;
- the signing between TIM and a special purpose vehicle constituted by Canson of a contract for the sale from TIM to Canson of a total investment of up to 3% of the share capital of INWIT.

On October 2, 2020, TIM and Ardian completed the agreement announced on June 24, 2020 for a partial sharing of the investment in INWIT. The operation entailed the purchase by a consortium of institutional investors led by Ardian of 49% of Daphne 3, a newly-established holding company controlled by TIM, to which TIM contributed a total of 30.2% of INWIT shares; this percentage, upon completion of the sales made to the SPV managed and assisted by Canson Capital Partners (Guernsey) Limited, as mentioned previously, at present represents the entire indirect investment of TIM in INWIT. The holding company has taken over from TIM - in the shareholders' agreement stipulated between TIM and Vodafone Europe, by virtue of which, joint control is exercised over INWIT.

The equivalent value of the transaction for TIM was 1.35 billion euros, as compared with a valuation of the INWIT share of 9.47 euros (ex dividend).

Relations between TIM (which retains control over the holding company) and the consortium led by Ardian (hereinafter the "Ardian Consortium") are governed by a specific shareholders' agreement, which grants the Ardian Consortium minority governance rights over both the holding company and INWIT. More specifically, the agreement envisages the designation by the Ardian Consortium of an INWIT director in the Daphne 3 share, meeting independence requirements, with the commitment by TIM to do everything within its power to make sure that the director designated by the Ardian Consortium is appointed by the board of directors of INWIT as member of the Related Parties Committee and Chairman of the company's Appointments and Remuneration Committee. Through the preventive consultation of the parties (or of the INWIT directors respectively designated), TIM acknowledges the Ardian Consortium a right of veto where the INWIT board of directors should be called to resolve on certain matters, as well as a right of veto for the Ardian Consortium in the board of directors and shareholders' meeting of Daphne 3. These are all rights exclusively intended to protect the

investment made by the Ardian Consortium, which do not affect the control and direction and coordination of TIM over Daphne 3 and - through the latter - TIM's joint control over INWIT, together with Vodafone Europe (taken over on November 19, 2020 by Central Tower Holding Company B.V., an indirect Dutch subsidiary of Vodafone Group Plc, just like Vodafone Europe).

Essential information on the shareholders' agreements (i) between TIM and Vodafone and (ii) between TIM and Ardian can be consulted on the INWIT website (inwit.it).



As part of the initial agreements aimed – inter alia – at integrating Vodafone towers into INWIT, TIM and Vodafone Italia have undertaken to purchase services over the next 10 years offered by INWIT (small cell, hosting on existing sites and new sites to be built) to an extent that guarantees INWIT a Net Present Value Target, which is calculated taking into account the value of the various services and the relative phasing over time.

TIM and Vodafone Italia will have the right to modify the mix and phasing of the services initially envisaged, including backhauling services, as long as they guarantee the same contribution to INWIT in terms of Net Present Value.

Investments in structured entities

The TIM Group does not hold investments in structured entities.

Other investments

Other investments refer to the following:

(million euros)	12.31.2018	Investments	Disposals and reimbursements of capital	Valuation at fair value	Other changes	12.31.2019
Assicurazioni Generali	3		(3)			—
Fin.Priv.	16			5		21
Northgate CommsTech Innovations Partners L.P.	16	3				19
Other	14			(2)		12
Total	49	3	(3)	3	—	52

(million euros)	12.31.2019	Investments	Disposals and reimbursements of capital	Valuation at fair value	Other changes	12.31.2020
Fin.Priv.	21			(5)		16
Northgate CommsTech Innovations Partners L.P.	19	6				25
Other	12	1				13
Total	52	7	—	(5)	—	54

The investment in Assicurazioni Generali was sold on July 19, 2019.

At December 31, 2020, the TIM Group had a subscription commitment for units in the Northgate CommsTech Innovations Partners L.P. Fund for 9.5 million USD, equal to approximately 7.7 million euros at the exchange rate as at December 31, 2020.

As permitted by IFRS 9, TIM now 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 10

FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

Non-current and current financial assets are broken down below:

(million euros)	12.31.2020	12.31.2019
Other non-current financial assets		
Securities other than investments	—	—
Receivables from employees	40	43
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,970	2,051
Non-hedging derivatives	44	6
Other financial receivables	213	—
	2,267	2,100
Financial receivables for lease contracts	43	51
Total non-current financial assets (a)	2,310	2,151
Securities other than investments, other financial receivables and other current financial assets		
Securities other than investments		
Measured at amortized cost (AC)	—	—
Measured at fair value through other comprehensive income (FVTOCI)	767	728
Measured at fair value through profit or loss (FVTPL)	325	149
	1,092	877
Financial receivables and other current financial assets		
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)	—	—
Receivables from employees	13	13
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	97	101
Non-hedging derivatives	50	5
Other short-term financial receivables	2	3
	162	122
	(b) 1,254	999
Financial receivables for lease contracts (c)	55	58
Cash and cash equivalents (d)	4,829	3,138
Total current financial assets e=(b+c+d)	6,138	4,195
Financial assets relating to Discontinued operations/Non-current (f)	—	65
Total non-current and current financial assets g=(a+e+f)	8,448	6,411

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

Financial receivables for lease contracts refer to:

- finance leases on user rights and equipment;
- commercial offers for TIM Consumer and Business customers involving the rental of ADSL routers;
- contracts for the rental of products to TIM customers with ancillary services ("full rent formula") and leasing contracts entered into in prior years by Teleleasing with TIM customers;
- agreements for the sale of network infrastructure in IRU with deferred collection over time recognized using the financial method envisaged by IFRS 16 given the contractual term substantially close to the economic life of the asset.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature mainly refer to the mark-to-market spot valuation component of the hedging derivatives, whereas **hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature** refer to accrued income on such derivative contracts.

Non-hedging derivatives consist mainly of the mark-to-market component of the non-hedging derivatives of the Brazil Business Unit. More specifically, they include 25 million euros in relation to the option to subscribe shares of C6 Bank with which TIM S.A. entertains commercial relations.

Further details are provided in the Note "Derivatives".

Other financial receivables refer 200 million euros to the Vendor Loan that TIM S.p.A. is owed by Ardian (through the financial vector Impulse I) following the transaction by means of which TIM S.p.A. conferred 30.2% of INWIT's shares to Daphne 3.

Securities other than investments included in current financial assets relate to:

- 767 million euros of listed securities, of which 320 million euros of Italian and European treasury bonds purchased by Telecom Italia Finance S.A., as well as 447 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. Under IFRS 9 and consistently with the Business model, such securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI). The purchases of the above government bonds, which, pursuant to Consob Communication no. DEM/11070007 of August 5, 2011, represent investments in "Sovereign debt securities", have been made in accordance with the Guidelines for the "Management and control of financial risk" adopted by the TIM Group;
- 325 million euros of investments in monetary funds by the Brazil Business Unit, which, under IFRS 9, are classified as financial assets measured at fair value through profit or loss (FVTPL).

On the basis of two securities lending agreements signed with Telecom Italia Finance S.A. on November 27, 2019 and thereafter renewed on April 28, 2020, TIM S.p.A. received on loan until February 2, 2021 (renewable term) 98 million euros (nominal) of BTP 03/01/2023 and 150 million euros of BTP 04/15/2021; starting December 1, 2019, TIM S.p.A. loans these securities to the counterparty NatWest.

On January 27, 2021, TIM S.p.A. renewed the securities lending agreement in place with Telecom Italia Finance S.A., which envisages the lending until February 15, 2023 of 98 million euros (nominal) of BTP 3/1/2023.

On January 29, 2021, TIM S.p.A. borrowed until October 5, 2023 (subject to renewal) 24 million euros (nominal) in BTP 10/15/2023 and 67.5 million euros (nominal) in BTP 2/1/2026; furthermore TIM S.p.A. lent the counterparty NatWest said securities in compliance with the agreement stipulated on December 21, 2020.

From an accounting standpoint, in compliance with IAS/IFRS, the assets are shown exclusively in the financial statements of Telecom Italia Finance S.A., which retains the risks and benefits associated with the position.

Further details are provided in the Note "Accounting standards".

Cash and cash equivalents increased by 1,691 million euros compared to December 31, 2019 and were broken down as follows:

(million euros)	12.31.2020	12.31.2019
Liquid assets with banks, financial institutions and post offices	4,433	2,655
Checks, cash and other receivables and deposits for cash flexibility	—	—
Securities other than investments (due within 3 months)	396	483
Total	4,829	3,138

The different technical forms of use of available cash at December 31, 2020 had the following characteristics:

- maturities: investments have a maximum maturity 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 in major European financial markets.

Securities other than investments (due within three months) included 395 million euros (482 million euros at December 31, 2019) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

NOTE 11

MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

These decreased by 471 million euros compared to December 31, 2019. The figure breaks down as follows:

(million euros)		12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Miscellaneous receivables (non-current)	(a)	516	151	987	245
Other non-current assets					
Deferred contract costs		1,522		1,554	
Other cost deferrals		76		44	
	(b)	1,598		1,598	
Total	(a+b)	2,114	151	2,585	245

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

Miscellaneous non-current receivables totaled 516 million euros (987 million euros at December 31, 2019) and included Non-current income tax receivables of 64 million euros (84 million euros at December 31, 2019).

This item was mainly due to the Brazil Business Unit (467 million euros; 944 million euros at December 31, 2019). In particular, the Brazil Business Unit at December 31, 2020 had non-current receivables for indirect taxes totaling 296 million euros, including receivables arising from the favorable outcome of tax disputes related to the inclusion of ICMS indirect tax in the basis of the calculation of the PIS/COFINS contribution (for more details, see the note on "Pending disputes and legal action, other information, commitments and guarantees" and receivables for court deposits of 126 million euros (225 million euros at December 31, 2019).

Other non-current assets amounted to 1,598 million euros (1,598 million euros at December 31, 2019). They mainly break down as follows:

- **Deferred contract costs** of 1,522 million euros (1,554 million euros at December 31, 2019), mainly related to the deferral of costs related to the activation and acquisitions of new contracts with customers. Contractual costs (mainly technical activation costs and commissions for the sales network) were deferred and charged to the separate consolidated income statement according to the expected duration of the contractual relationship with customers (on average around 3 years for the mobile business and 7 years for the fixed-line business).

Total (non-current and current) deferred contract costs amounted to 2,139 million euros (2,172 million euros at December 31, 2019) and break down as follows:

(million euros)	12.31.2020	12.31.2019
Deferred contract costs		
Non-current deferred contract costs	1,522	1,554
Current deferred contract costs	617	618
Total	2,139	2,172

(million euros)	12.31.2020	12.31.2019
Deferred contract costs		
Contract acquisition costs	1,132	1,146
Contract execution costs	1,007	1,026
Total	2,139	2,172

Changes to comprehensive deferred contract costs in FY 2020 are as follows:

(million euros)	12.31.2019	Increase	Release to income statement	Exchange differences and other changes	12.31.2020
Contract acquisition costs	1,146	366	(372)	(8)	1,132
Contract execution costs	1,026	232	(251)	—	1,007
Total	2,172	598	(623)	(8)	2,139

The deferred contract costs will be recognized in the income statement for future years and, in particular, of around 617 million euros in 2021, based on the amount at December 31, 2020 without taking into account the new deferred portions.

(million euros)	12.31.2020	year of recognition in the income statement					After 2025
		2021	2022	2023	2024	2025	
Contract acquisition costs	1,132	355	268	188	132	93	96
Contract execution costs	1,007	262	236	197	149	94	69
Total	2,139	617	504	385	281	187	165

- **Other deferred costs** of 77 million euros, mainly attributable to the Parent and to companies of the Brazil Business Unit and the Telecom Italia Sparkle group.

NOTE 12

INCOME TAX EXPENSE (CURRENT AND DEFERRED)

CURRENT INCOME TAX RECEIVABLES

Non-current and current income tax receivables at December 31, 2020 amounted to 150 million euros (233 million euros at December 31, 2019).

Specifically, they consisted of:

- non-current income tax receivables of 64 million euros (84 million euros at December 31, 2019);
- current income tax receivables of 86 million euros (149 million euros at December 31, 2019), relating to the companies of the Brazil Business Unit (39 million euros) and the Domestic Business Unit (47 million euros). In addition, as regards IRES of the Parent Company TIM S.p.A., receivables were transferred for 303 million euros, also originating from the patent box benefit.

Deferred tax assets and deferred tax liabilities

The net balance of 7,219 million euros at December 31, 2020 (694 million euros at December 31, 2019) breaks down as follows.

(million euros)	12.31.2020	12.31.2019
Deferred tax assets	7,496	942
Deferred tax liabilities	(277)	(248)
Total	7,219	694

Deferred tax assets at December 31, 2020 mainly referred to the Domestic Business Unit, at 7,383 million euros. At December 31, 2019, deferred tax assets mainly referred to the Domestic Business Unit, at 919 million euros. As at December 31, 2020, the Parent Company TIM S.p.A. benefits from the possibility of realigning the tax values to the greater value of the assets booked, specifically the value of goodwill of 23,051 million euros, as envisaged by Decree Law 104/2020, Art. 110, subsections 8 and 8 bis. This will result, in exchange for payment of substitute tax in the amount of 3% of the realigned value (692 million euros), in the deduction over 18 years, starting 2021, of the tax amortization of the realigned value of 23,051 million euros. These deductions will generate benefits in terms of IRES and IRAP, recognized as at December 31, 2020 amongst deferred tax assets for 6,569 million euros. Deferred tax assets recorded are entirely recoverable, taking into account the possible absorption through future taxable income of the Parent Company, including considering the carrying forward, with no limit in time, of the IRES losses that may be verified in the event of a temporary incapacity of taxable income.

Deferred tax liabilities mainly refer to Telecom Italia Capital for 252 million euros (213 million euros at December 31, 2019) and the Domestic Business Unit for 13 million euros (12 million euros at December 31, 2019).

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)	12.31.2020	12.31.2019
Deferred tax assets	7,931	1,578
Deferred tax liabilities	(712)	(884)
Total	7,219	694

The temporary differences which made up this line item at December 31, 2020 and 2019, as well as the movements during 2020 were as follows:

(million euros)	12.31.2019	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	12.31.2020
Deferred tax assets					
Tax loss carried forward	180	(36)		(44)	100
Derivatives	598	3	24		625
Provision for bad debts	174	(28)		(20)	126
Provisions for risks and charges	397	(111)		(26)	260
Taxed depreciation and amortization	104	(8)			96
Tax realignment pursuant to Decree Law 104/2020 Art. 110	—	6,569			6,569
Other deferred tax assets	125	41	(1)	(10)	155
Total	1,578	6,430	23	(100)	7,931
Deferred tax liabilities					
Derivatives	(472)	(24)	(39)	3	(532)
Business combinations - for step-up of net assets in excess of tax basis	(96)	2	(1)	28	(67)
Accelerated depreciation	(13)	(44)		4	(53)
Brazil BU - exclusion of ICMS from the PIS and COFINS calculation basis	(226)	173		53	—
Other deferred taxes	(77)	(18)		35	(60)
Total	(884)	89	(40)	123	(712)
Total deferred tax assets net of deferred tax liabilities	694	6,519	(17)	23	7,219

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2020 were the following:

(million euros)	Within 1 year	Beyond 1 year	Total at 12.31.2020
Deferred tax assets	670	7,261	7,931
Deferred tax liabilities	(65)	(647)	(712)
Total deferred tax assets net of deferred tax liabilities	605	6,614	7,219

At December 31, 2020, the TIM Group had unused tax loss carryforwards of 1,730 million euros, mainly relating to the Brazil Business Unit and the company Telecom Italia Finance, with the following expiration dates:

Year of expiration	(million euros)
2021	—
2022	1
2023	1
2024	3
2025	1
Expiration after 2025	29
Without expiration	1,695
Total unused tax loss carryforwards	1,730

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 323 million euros at December 31, 2020 (536 million euros at December 31, 2019) and mainly referred to the Parent Company TIM S.p.A. and to the Brazil Business Unit. Deferred tax assets were recognized as it was 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 relative to foreign subsidiaries of 354 million euros (393 million euros at December 31, 2019) were not recognized on 1,408 million euros of tax loss carry-forwards since, at the reporting date, their recoverability was not considered probable.

At December 31, 2020, deferred tax liabilities were not recognized on approximately 0.8 billion euros of tax-suspended reserves and undistributed earnings of subsidiaries, because the TIM 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 payable

Current income tax payables amounted to 764 million euros (145 million euros at December 31, 2019). They break down as follows:

(million euros)	12.31.2020	12.31.2019
Income tax payables:		
non-current	493	61
Current	271	84
Total	764	145

The current portion, of 271 million euros, mainly refers to the Brazil Business Unit (18 million euros) and the Domestic Business Unit (237 million euros) and includes the first installment of the substitute tax pursuant to Decree Law 104/2020, Art. 110, paragraphs 8 and 8 bis of the Parent Company (231 million euros). The non-current portion, of 493 million euros, refers to the Brazil Business Unit (31 million euros) and the Domestic Business Unit (462 million euros) and includes the additional two installments of substitute tax pursuant to Decree Law 104/2020, Art. 110, paragraphs 8 and 8 bis of the Parent Company (461 million euros).

Income tax expense

The income tax expense for FYs 2020 and 2019 is detailed below:

(million euros)		2020	2019
Current taxes for the year		777	274
Net difference in prior year estimates		(197)	(33)
Total current taxes		580	241
Deferred taxes		(6,535)	272
Total taxes on income from continuing operations	(a)	(5,955)	513
Taxes on income from Discontinued operations/Non-current assets held for sale	(b)	—	(16)
Total income tax expense for the year	(a+b)	(5,955)	497

The lesser current tax for years prior to 2020 reflects the effects of the actual tax return of the Parent Company, with respect to the estimate made in the 2019 financial statements on the basis of the information available at the time, in addition to the effects deriving from the ruling signed on August 3, 2020 with the Revenue Agency for the application of the “patent box” benefit (299 million euros, of which IRES for 254 million euros and IRAP for 45 million euros).

They also reflect the greater tax from previous years of the Brazil Business Unit, mainly consequent to the procedural changes in the determination of the tax effects deriving from the exclusion of the ICMS tax from the basis used to calculate the PIS/COFINS contribution.

Income tax also benefits from the recording of deferred tax assets as a consequence of the tax recognition of higher amounts booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis for a total of 6,569 million euros (of which 5,532 million euros IRES and 1,037 million euros IRAP).

2019 benefited from lower Parent taxes (-244 million euros) partially offset by the higher deferred tax liabilities recognized by the Brazil Business Unit mainly against non-recurring 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, using the IRES tax rate in force in Italy (24%), and the effective tax expense for the years ended December 31, 2020 and 2019 is as follows:

(million euros)	2020	2019
Profit (loss) before tax from continuing operations	1,397	1,739
Theoretical income tax from continuing operations	335	417
Income tax effect on increases (decreases) in variations:		
Tax losses of the year not considered recoverable	1	2
Tax losses from prior years not recoverable (recoverable) in future years	(20)	(2)
Previous years' IRES	(299)	(19)
Prepaid IRES tax pursuant to Decree Law 104/2020, Art. 110	(5,532)	—
Brazil: different tax rate compared to the theoretical rate in force in Italy	33	100
Brazil: investment incentives	(28)	(44)
Other net differences	(137)	(51)
Effective taxes recognized in the Income Statement, excluding IRAP and substitute tax	(5,647)	403
IRAP	(1,000)	110
Substitute tax pursuant to Decree Law 104/2020 Art. 110	692	—
Total effective taxes recognized in the Income Statement from continuing operations (a)	(5,955)	513
Effective taxes recognized in the Income Statement from Discontinued operations/Non-current assets held for sale (b)	—	(16)
Total effective taxes recognized in the Income Statement (a)+(b)	(5,955)	497

For the analysis of the tax burden related to the Profit (loss) before tax from continuing operations, the impact of IRAP and substitute tax has been kept separate to avoid any distorting effect, since these taxes only apply to Italian companies and are calculated on a tax base other than pre-tax profit.

NOTE 13

INVENTORIES

These decreased by 18 million euros compared to December 31, 2019. The figure breaks down as follows:

(million euros)	12.31.2020	12.31.2019
Raw materials and supplies	2	1
Work in progress and semifinished products	2	2
Finished goods	238	257
Total	242	260

Inventories essentially consist of fixed and mobile telecommunications equipment and handsets and related accessories, as well as office products, special printers and gaming terminals.

Inventories consist of 204 million euros for the Domestic Business Unit (215 million euros at December 31, 2019) and 38 million euros for the Brazil Business Unit (45 million euros at December 31, 2019).

The period reduction is mainly connected with not only the effect of the change in the exchange rate for the Brazil Business Unit (-14 million euros), but also the decreasing trends regarding the purchase of mobile telephony devices and accessories, associated with a more closely targeted commercial and procurement policy adopted by TIM S.p.A.

Inventories are stated net of a provision for bad debts amounting to 13 million euros (17 million euros at December 31, 2019).

NOTE 14

TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

These decreased by 511 million euros compared to December 31, 2019. The figure breaks down as follows:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Trade receivables:				
Receivables from customers	2,140	2,140	2,437	2,437
Receivables from other telecommunications operators	765	765	815	815
(a) 2,905	2,905	2,905	3,252	3,252
Miscellaneous receivables (current)				
Receivables due from others	(b) 516	85	691	119
Other current assets				
Contract assets	25	25	34	34
Deferred contract costs	617		618	
Other cost deferrals	217		176	
Other	66		86	
(c) 925	925	25	914	34
Total (a+b+c)	4,346	3,015	4,857	3,405

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

The analyses of the aging of the financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2020 and December 31, 2019 are provided below:

(million euros)	12.31.2020	of which non-	of which overdue	0-90 days	of which overdue from:		
					91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	3,015	2,388	627	116	133	102	276

(million euros)	12.31.2019	of which non-	of which overdue	0-90 days	of which overdue from:		
					91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	3,405	2,642	763	254	100	118	291

Non-overdue receivables fell by 254 million euros compared to December 31, 2019.

This trend is mainly due to the decreases in 2020 of TIM S.p.A. (83 million euros), the Telecom Italia Sparkle group companies (18 million euros) and Olivetti (18 million euros), partly offset by the entry of the Noovle group companies into the scope of consolidation (20 million euros); the Brazil Business Unit similarly records a reduction in non past-due receivables (-168 million euros, including a negative exchange rate effect of approximately 160 million euros).

Overdue receivables fell 136 million euros compared to December 31, 2019.

This change was mainly due to the decreases in 2020 of the Parent Company (56 million euros), the Telecom Italia Sparkle Group companies (26 million euros), and the Brazil Business Unit (60 million euros, including a negative exchange rate effect of approximately 50 million euros).

Trade receivables amounted to 2,905 million euros (3,252 million euros at December 31, 2019) and are stated net of the provision for bad debts of 627 million euros (757 million euros at December 31, 2019). They included 13 million euros (30 million euros at December 31, 2019) of medium/long-term receivables, of which 7 million euros for agreements for the sale of transmission capacity under Indefeasible Rights of Use (IRU). Trade receivables mainly related to TIM S.p.A. (2,142 million euros) and the Brazil Business Unit (495 million euros).

Movements in the provision for bad debts were as follows:

(million euros)	12.31.2020	12.31.2019
At January 1	757	769
Provision charges to the income statement	282	368
Utilization and decreases	(369)	(361)
Change in scope	1	(14)
Exchange differences and other changes	(44)	(5)
At December 31	627	757

More specifically, the provision for bad debt at December 31, 2020 suffered the provisions made in 2020 for a total of 282 million euros, of which 41 million euros are non-recurring of the Domestic Business Unit in connection with the COVID-19 health emergency, which resulted in a worsening of the expected credit losses of customers, consequent to the expected deterioration of the macroeconomic context. For more details, see the Note "Non-recurring Events and Transactions".

Miscellaneous receivables (current) refer to other receivables amounting to 516 million euros (691 million euros at December 31, 2019) and are net of a provision for bad debts of 48 million euros (49 million euros at December 31, 2019). Details are as follows:

(million euros)	12.31.2020	12.31.2019
Advances to suppliers	22	10
Receivables from employees	10	11
Tax receivables	254	376
Receivables for grants from the government and public entities	29	44
Sundry receivables	201	250
Total	516	691

Tax receivables mainly relate to the Brazil Business Unit (245 million euros) and are related to local indirect taxes; specifically, they include the recognition of current tax receivables resulting from the favorable outcome of tax disputes relating to the inclusion of the indirect tax ICMS (tax on the movement of goods and services) in the basis for calculating the PIS/COFINS contribution, the use of which began as early as the end of 2019.

Receivables for grants from the government and public entities (29 million euros) mainly relate to Ultra-Broadband-UBB and Broadband-BB projects. The grants are recognized to the income statement when the related systems are commissioned.

Sundry receivables mainly include:

- TIM S.p.A. receivables for with-recourse assignments to factoring companies (37 million euros);
- miscellaneous receivables from other TLC operators of TIM S.p.A. (34 million euros);
- TIM S.p.A. receivables in relation to the Universal Service (32 million euros);
- TIM S.p.A. receivables from social security and pension institutions (24 million euros).

Other current assets include:

- **Contract assets with customers:** this item includes the effect of the early recognition of revenues for those bundle contracts (such as bundles of products and services) with individual performance obligations with a different recognition timing, in which the goods recognized “at a point in time” are sold at a discounted price, or for those contracts which, by providing for a discount for a period of time shorter than the minimum contract term, require, pursuant to IFRS 15, a reallocation of the discount over the minimum contractual term. *Contract Assets* at December 31, 2020 amounted to 25 million euros (34 million euros at December 31, 2019), net of the related write-down provision of 2 million euros and drop by 9 million euros, since the reversal to the income statement of the previously accumulated balance was substantially offset by the need to distribute discounts granted to customers temporally over the minimum contractual term, with particular reference to those connected with the impact of COVID-19;
- **Deferred contract costs** amount to 617 million euros (618 million euros at December 31, 2019) and are contract costs (mainly technical activation costs and commissions for the sales network) deferred and recognized in the separate income statement according to the expected duration of the contractual relationship with customers (on average around 3 years for the mobile business and 7 years for the fixed-line business). Further details on Deferred contract costs are provided in the Note “Miscellaneous receivables and other non-current assets”.
- **Other deferred costs** mainly concern:
 - the Parent Company essentially for the deferral of costs related to rental charges and other lease and rental costs (139 million euros), the deferral of costs for the purchase of products and services (28 million euros), deferral of after-sales expenses on application offers (19 million euros), insurance premiums (4 million euros) and maintenance fees (2 million euros);
 - the Telecom Italia Sparkle group, mainly concerning the deferral of costs connected with leases for circuits and maintenance fees (12 million euros);
 - the Brazil Business Unit, essentially for insurance premiums (around 7 million euros).

NOTE 15

DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

This item is null at December 31, 2020.

At December 31, 2019 the item referred to the Assets and Liabilities of the company Infrastrutture Wireless Italiane S.p.A. (INWIT).

Concerning INWIT, we remind readers that:

- on December 19, 2019 the INWIT Shareholders' Meeting approved the merger by incorporation of Vodafone Towers S.r.l. into INWIT;
- on March 6, 2020 the European Commission cleared the combination of INWIT's passive network infrastructure with Vodafone Italy's towers;
- on March 25, 2020 the merger between INWIT and Vodafone Towers S.r.l. in INWIT was finalized with the execution of the related agreements for the merger of Vodafone Towers S.r.l. with INWIT;
- The merger became effective from March 31, 2020;

The finalization of the merger involved the dilution of the INWIT stake owned by the TIM Group in the share Capital of this company from 60% to 37.5%. As a result, as of this date, INWIT S.p.A. has been measured using the equity method.

For further details, see the note "Investments".

The dilution also resulted in the recognition of a net capital gain of 441 million euros in the item "Other income from investment" of the TIM Group's Separate Consolidated Income Statement for 2020.

At December 31, 2019, considering that the completion of the integration transaction described above by 2020 was highly probable, INWIT was presented as an "Asset held for sale".

The composition of the Assets and Liabilities held for sale is detailed below:

(million euros)	12.31.2020	12.31.2019
Discontinued operations/Non-current assets held for sale:		
of a financial nature	—	65
of a non-financial nature	—	4,582
Total (a)	—	4,647
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		
of a financial nature		655
of a non-financial nature	—	150
Total (b)	—	805
Net value of assets held for sale (a-b)	—	3,842

The **assets of a financial nature** are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current financial assets	—	—
Current financial assets	—	65
Total	—	65

Non-financial assets are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current assets		
Intangible assets		3,611
Tangible assets		284
Rights of use assets		636
Other non-current assets		9
	—	4,540
Current Assets		42
Total	—	4,582

Financial liabilities are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current financial liabilities	—	552
Current financial liabilities	—	103
Total	—	655

Non-financial liabilities are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current liabilities	—	105
Current liabilities	—	45
Total	—	150



FY 2019 Profit from Discontinued operations/Non-current assets held for sale was 16 million euros and reflected a partial repayment of taxes, whose collection became certain during the year, connected to the sale of the Sofora-Telecom Argentina group in 2016.

NOTE 16

EQUITY

Composed as follows:

(million euros)	12.31.2020	12.31.2019
Equity attributable to Owners of the Parent	26,215	20,280
Non-controlling interest	2,625	2,346
Total	28,840	22,626

As regards the **Equity attributable to Owners of the Parent**, its composition is detailed below:

(million euros)	12.31.2020	12.31.2019
Share capital	11,588	11,587
Additional paid-in capital	2,133	2,094
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	12,494	6,599
Reserve for financial assets measured at fair value through other comprehensive income	20	19
Reserve for hedging instruments	(350)	(440)
Reserve for exchange rate differences on translating foreign operations	(2,538)	(1,417)
Reserve for remeasurements of employee defined benefit plans (IAS 19)	(119)	(124)
Other profits (losses) of associates and joint ventures accounted for using the equity method	—	—
Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year	15,481	8,561
Total	26,215	20,280

At December 31, 2020, the **share capital** was 11,588 million euros, already net of treasury shares for 89 million euros (11,587 million euros, already net of treasury shares for 90 million euros at December 31, 2019).

The reduction in treasury shares was related to the sale of shares based on the "Special Award 2016-2019" compensation plan.

For further details, please refer to the Note "Equity Compensation Plans".

Parent Company share capital carries a restriction on tax suspension for an amount of 11,104 million euros (1,191 million at December 31, 2019). The increase on December 31, 2019 of 9,913 million euros meets the condition laid down by Decree Law 104/2020, Art. 110, subsection 8, in connection with the tax recognition of the higher booked values. Further details are provided in the Note "Shareholders' Equity" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

Movements in share capital during 2020 are presented in the following tables:

Reconciliation between the number of shares outstanding at December 31, 2019 and December 31, 2020

(number of shares)		at 12/31/2019	Share assignment/issue	as at 12.31.2020	% on the Share Capital
Ordinary shares issued	(a)	15,203,122,583	126,343,913	15,329,466,496	71.78 %
less: treasury shares	(b)	(163,754,388)	2,492,305	(161,262,083)	
Ordinary shares outstanding	(c)	15,039,368,195	128,836,218	15,168,204,413	
Savings shares issued and outstanding	(d)	6,027,791,699	—	6,027,791,699	28.22 %
Total TIM S.p.A. shares issued	(a+d)	21,230,914,282	126,343,913	21,357,258,195	100.00 %
Total TIM S.p.A. shares outstanding	(c+d)	21,067,159,894	128,836,218	21,195,996,112	

Reconciliation between the value of shares outstanding at December 31, 2019 and December 31, 2020

(million euros)		Share capital at 12/31/2019	Change in share capital	Share capital at 12/31/2020
Ordinary shares issued	(a)	8,362	—	8,362
less: treasury shares	(b)	(90)	1	(89)
Ordinary shares outstanding	(c)	8,272	1	8,273
Savings shares issued and outstanding	(d)	3,315	—	3,315
Total TIM S.p.A. share capital issued	(a+d)	11,677	—	11,677
Total TIM S.p.A. share capital outstanding	(c+d)	11,587	1	11,588

The total value of ordinary treasury shares at December 31, 2020, amounting to 507 million euros, was recorded as follows: the part relating to accounting par value (89 million euros) recognized as a deduction from the share capital issued and the remaining part as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year.

Disclosure on share capital

The ordinary and savings shares of TIM S.p.A. are listed in Italy (FTSE index).

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emption right can be excluded to the maximum extent of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Group sources itself with the capital necessary to fund its business development and operation requirements; the sources of funds are found in a balanced mix of equity, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of funding and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the financial markets of the euro, U.S. dollar and Pound sterling areas to minimize costs), taking care to reduce the refinancing risk.

The remuneration of equity is proposed by the board of directors to the shareholders' meeting, during which the annual financial statements are approved, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, to ensure an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Privileges of savings shares

The privileges of TIM S.p.A. savings shares are indicated below:

- the profit shown in the duly approved financial statements, after deducting the amount to be allocated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the 0.55 euros per share;
- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders' meeting, the remaining profit shall be allocated among all the shares, so that savings shares

are entitled to higher overall dividends than ordinary shares would be entitled to the extent of 2% of 0.55 euros per share;

- when, in any one year, dividends of below 5% of the 0.55 euros per share are paid to the savings shares, the difference is determined as an increase of the privileged dividend in the next two subsequent years;
- in the event of a distribution of reserves, savings shares have the same rights as the other shares. Moreover, when there is no profit or insufficient profit is reported in the financial statements for a given year to satisfy the aforesaid savings shares privileges, the Shareholders' Meeting called to approve those financial statements may choose to satisfy the dividend right and/or the higher dividend right by distributing available reserves. The distribution of available reserves for such payments excludes the application of the mechanism extending the right to the preferred dividend not paid through the distribution of profits for the following two years;
- the reduction of share capital as a result of losses does not affect the savings shares except for the amount of the loss which is not covered by the portion of the share capital represented by the other shares;
- upon the wind-up of TIM S.p.A., the savings shares have a pre-emption right in the reimbursement of capital up to the amount of 0.55 euros per share;
- in the event of the cessation of trading in the Company's ordinary or savings shares, the holder of savings shares may ask TIM S.p.A. to convert his/her shares into ordinary shares, using the method selected during a special session of the shareholders' meeting called for that purpose within two months of being excluded from trading.

Additional paid-in capital, totaling 2,133 million euros, increases by 39 million euros on December 31, 2019 as a consequence of the November 27, 2020 issue of 126,343,913 ordinary shares to service the "2020 Broad-Based Employee Share Ownership Plan" approved by Telecom Italia S.p.A.'s Shareholders' Meeting on April 23, 2020. The share premium reserve is entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.

Other reserves moved through the Statements of comprehensive income include:

- The **Reserve for financial assets measured at fair value through other comprehensive income**, positive for 20 million euros at December 31, 2020, increased by 1 million euros compared to the figure at December 31, 2019. In particular, the change in 2020 includes the profits from the securities portfolio of Telecom Italia Finance (1 million euros, of which 0.5 million euros were realized), the profits related to other financial assets held by the Parent Company TIM (4 million euros) and the expenses related to the equity investment in Fin.Priv. of the Parent Company TIM (4 million euros). This reserve is expressed net of deferred tax liabilities of 1 million euros (at December 31, 2019, it was expressed net of deferred tax liabilities of 1 million euros).
- The **Reserve for hedging instruments** had a negative balance of 350 million euros at December 31, 2020, (negative 440 million euros at December 31, 2019). This reserve is stated net of deferred tax assets of 110 million euros (at December 31, 2019, it was stated net of deferred tax assets of 140 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements ("cash flow hedge").
- The **Reserve for exchange rate differences on translating foreign operations** showed a negative balance of 2,538 million euros at December 31, 2020 (negative 1,417 million euros at December 31, 2019) and mainly related to exchange rate differences resulting from the translation into euros of the financial statements of companies belonging to the Brazil Business Unit (negative for 2,550 million euros versus negative for 1,439 million euros at December 31, 2019).
- The **Reserve for remeasurements of employee defined benefit plans**, negative for 119 million euros, decreased by 5 million euros compared to December 31, 2019. This reserve is stated net of deferred tax assets of 30 million euros (at December 31, 2019, it was stated net of deferred tax assets of 31 million euros). In particular, this reserve includes the recognition of changes in actuarial gains (losses).
- The **Other profits (losses) of associates and joint ventures accounted for using the equity method** is nil at both December 31, 2020 and December 31, 2019.

Other sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year amounted to 15,481 million euros and increased by 6,920 million euros, as detailed below:

(million euros)	2020	2019
Profit (loss) for the year attributable to Owners of the Parent	7,224	916
Dividends approved - TIM S.p.A.	(316)	(166)
Issue of equity instruments	3	4
Other changes	9	(3)
Change for the year in Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year	6,920	751

Part of Other sundry reserves and Accrued profits (losses), including profit for the year of TIM S.p.A. are restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8..

For more details, reference is made to the "Shareholders' equity" Note of the Parent Company:

In 2020, dividends deliberated by TIM S.p.A. are 316 million euros and refer to the distribution to Shareholders of a dividend of 0.0100 euro per ordinary share and 0.0275 euro per savings share, gross of statutory withholding taxes.

In 2019, the dividends deliberated by TIM S.p.A. were 166 million euros and referred to savings shares (dividend per share of 0.0275 euros).

Non-controlling interests, amounting to 2,625 million euros, mainly refer to Daphne 3 S.p.A. (1,337 million euros) and the companies of the Brazil Business Unit (1,232 million euros) and shows an increase of 279 million euros compared to December 31, 2019, as detailed below:

(million euros)	2020	2019
Profit (loss) for the year attributable to Non-controlling interest	128	326
Group Company dividends paid to non-controlling shareholders	(62)	(130)
Changes in the Reserve for exchange differences on translating foreign operations	(491)	(36)
INWIT - deconsolidation	(644)	—
Daphne 3 - capital increase	1,334	—
Change in the scope of consolidation	—	(44)
Other changes	14	11
Change for the year in Equity attributable to Non-controlling interests	279	127

The Group company dividends paid to minority shareholders mainly referred to the Brazil Business Unit for 61 million euros. 2019 dividends mainly referred to the Brazil Business Unit for 75 million euros and to INWIT for 51 million euros.

The Reserve for exchange rate differences on translating foreign operations attributable to non-controlling interest shows a negative balance of 1,167 million euros at December 31, 2020 (negative for 676 million euros at December 31, 2019), relating entirely to exchange rate differences arising from the translation into euros of the financial statements of the companies belonging to the Brazil Business Unit.

Future potential changes in share capital

Details of "Future potential changes in share capital" are presented in the Note "Earnings per share".

NOTE 17

FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

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

(million euros)	12.31.2020	12.31.2019
Non-current financial liabilities for financing contracts and others		
Medium/long-term financial payables:		
Bonds	16,898	17,848
Convertible bonds	1,958	1,925
Payables to banks	2,772	3,996
Other financial payables	185	176
	21,813	23,945
Other medium/long-term financial liabilities:		
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,832	1,659
Non-hedging derivatives	10	1
Other liabilities	—	—
	1,842	1,660
	(a)	23,655
Non-current financial liabilities for lease contracts	(b)	4,199
Total non-current financial liabilities	c=(a+b)	27,854
		30,181
Current financial liabilities for financing contracts and others		
Short-term financial payables:		
Bonds	982	1,952
Convertible bonds	6	6
Payables to banks	2,506	1,048
Other financial payables	119	114
	3,613	3,120
Other short-term financial liabilities:		
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	62	62
Non-hedging derivatives	2	—
Other liabilities	—	—
	64	62
	(d)	3,677
Current financial liabilities for lease contracts	(e)	631
Total current financial liabilities (*)	f=(d+e)	4,308
		3,821
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	(g)	—
		655
Total Financial liabilities (Gross financial debt)	h=(c+f+g)	32,162
		34,657

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

Gross financial debt according to the original currency of the transaction is as follows:

	12.31.2020		12.31.2019	
	(millions of foreign currency)	(million euros)	(millions of foreign currency)	(million euros)
USD	5,899	4,807	5,683	5,059
GBP	389	433	389	457
BRL	8,415	1,320	9,444	2,086
YEN	20,030	158	20,030	164
ILS	54	14	60	15
EUROS		25,430		26,221
Total excluding Held for Sale		32,162		34,002
Held for Sale		—		655
Total		32,162		34,657

For the exchange rates used for the conversion of amounts in foreign currency, see the Note "Additional information".

The breakdown of gross financial debt by effective interest-rate levels applicable to the original currency is provided below, excluding the effect of any derivative hedging instruments:

(million euros)	12.31.2020	12.31.2019
Up to 2.5%	6,047	5,627
From 2.5% to 5%	13,497	13,793
From 5% to 7.5%	6,692	8,059
From 7.5% to 10%	1,906	2,211
Over 10%	1,317	1,794
Accruals/deferrals, MTM and derivatives	2,703	2,518
Total excluding Held for Sale	32,162	34,002
Held for Sale	—	655
Total	32,162	34,657

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

(million euros)	12.31.2020	12.31.2019
Up to 2.5%	15,640	13,224
From 2.5% to 5%	8,052	11,474
From 5% to 7.5%	3,352	3,747
From 7.5% to 10%	1,098	1,245
Over 10%	1,317	1,794
Accruals/deferrals, MTM and derivatives	2,703	2,518
Total excluding Held for Sale	32,162	34,002
Held for Sale	—	655
Total	32,162	34,657

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

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

(million euros)	maturing by Dec. 31 of the year:						Total
	2021	2022	2023	2024	2025	After 2025	
Convertible bonds	564	3,101	2,417	3,222	2,000	7,945	19,249
Loans and other financial liabilities	1,467	1,265	650	189	579	317	4,467
Financial lease liabilities	572	575	525	508	429	2,162	4,771
Total	2,603	4,941	3,592	3,919	3,008	10,424	28,487
Current financial liabilities	1,148	—	—	—	—	—	1,148
Total	3,751	4,941	3,592	3,919	3,008	10,424	29,635

The main components of financial liabilities are commented below.

Bonds are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current portion	16,898	17,848
Current portion	982	1,952
Total carrying amount	17,880	19,800
Fair value adjustment and measurements at amortized cost	(631)	(638)
Total nominal repayment amount	17,249	19,162

Convertible bonds consist of the unsecured equity-linked bond for 2,000 million euros, with a coupon of 1.125%, issued by TIM S.p.A., convertible into newly-issued ordinary shares, maturing in 2022. This item is broken down below:

(million euros)	12.31.2020	12.31.2019
Non-current portion	1,958	1,925
Current portion	6	6
Total carrying amount	1,964	1,931
Fair value adjustment and measurements at amortized cost	36	69
Total nominal repayment amount	2,000	2,000

The nominal repayment amount of bonds and convertible bonds totaled 19,249 million euros, down by 1,913 million euros compared to December 31, 2019 (21,162 million euros) as a result of new issues, repayments and the exchange effect in 2020.

The following table lists the bonds issued by companies of the TIM Group, by issuing company, expressed both at the nominal repayment amount, net of bond repurchases, and at market value:

Currency	Total (millions)	Nominal repayment amount (million euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12.31.2020 (%)	Market value at 12.31.2020 (million euros)
Bonds issued by TIM S.p.A.								
Euro	563.6	564	4.500%	1/23/2014	1/25/2021	99.447	100.527	567
Euro	^(b) 217.2	217	6-month Euribor (base 365)	1/01/2002	1/01/2022	100	100	217
Euro	883.9	884	5.250%	2/10/2010	2/10/2022	99.295	106.072	938
Euro	^(c) 2,000	2,000	1.125%	3/26/2015	3/26/2022	100	99.757	1,995
Euro	1,000	1,000	3.250%	1/16/2015	1/16/2023	99.446	105.512	1,055
GBP	375	417	5.875%	5/19/2006	5/19/2023	99.622	109.783	458
Euro	1,000	1,000	2.500%	1/19/2017	7/19/2023	99.288	104.845	1,049
Euro	750	750	3.625%	1/20/2016	1/19/2024	99.632	107.340	805
Euro	1,250	1,250	4.000%	1/11/2019	4/11/2024	99.436	108.418	1,355
USD	1,500	1,222	5.303%	5/30/2014	5/30/2024	100	109.065	1,333
Euro	1,000	1,000	2.750%	4/15/2019	4/15/2025	99.320	104.932	1,049
Euro	1,000	1,000	3.000%	9/30/2016	9/30/2025	99.806	106.935	1,069
Euro	750	750	2.875%	6/28/2018	1/28/2026	100	106.152	796
Euro	1,000	1,000	3.625%	5/25/2016	5/25/2026	100	110.396	1,104
Euro	1,250	1,250	2.375%	10/12/2017	10/12/2027	99.185	104.428	1,305
Euro	670	670	5.250%	3/17/2005	3/17/2055	99.667	127.584	855
Subtotal		14,974						15,950
Bonds issued by Telecom Italia Finance S.A. and guaranteed by TIM S.p.A.								
Euro	1,015	1,015	7.750%	1/24/2003	1/24/2033	^(a) 109.646	148.031	1,503
Subtotal		1,015						1,503
Bonds issued by Telecom Italia Capital S.A. and guaranteed by TIM S.p.A.								
USD	1,000	815	6.375%	10/29/2003	11/15/2033	99.558	124.298	1,013
USD	1,000	815	6.000%	10/06/2004	9/30/2034	99.081	121.666	992
USD	1,000	815	7.200%	7/18/2006	7/18/2036	99.440	135.574	1,105
USD	1,000	815	7.721%	6/04/2008	6/04/2038	100	140.168	1,142
Subtotal		3,260						4,252
Total		19,249						21,705

(a) Weighted average issue price for bonds issued with multiple tranches.

(b) Reserved for employees.

(c) Bond convertible into newly-issued TIM S.p.A. ordinary treasury shares.

The regulations and the Offering Circulars relating to the bonds of the TIM Group are available on the corporate website gruppotim.it.

The following table lists the changes in bonds during 2020:

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A. 719 million euros 4.000% ⁽¹⁾	Euro	719	21-Jan-20
TIM S.A. 1,000 million BRL 104.10% CDI	BRL	1,000	15-Jul-20
Telecom Italia S.p.A. 547 million euros 4.875% ⁽²⁾	Euro	547	25-Sep-20

(1) Net of buy-backs totaling 281 million euros made by the company in 2015.

(2) Net of buy-backs totaling 453 million euros made by the company in 2015.

Medium/long-term payables to banks of 2,772 million euros (3,996 million euros at December 31, 2019) decreased by 1,224 million euros. Short-term payables to banks totaled 2,506 million euros (1,048 million euros at December 31, 2019) and included 1,470 million euros of the current portion of medium/long-term payables to banks.

The other medium/long-term **financial payables** totaled 185 million euros (176 million euros at December 31, 2019), 155 million euros of which refer to the Telecom Italia Finance S.A. loan for JPY 20,000 million, maturing in 2029. Other short-term other financial payables amount to 119 million euros (114 million euros at December 31, 2019) and include 7 million euros of the current portion of other medium/long-term financial payables.

Medium/long-term **financial liabilities for lease contracts** amounted to 4,199 million euros (4,576 million euros at December 31, 2019), whilst short-term payables totaled 631 million euros (639 million euros at December 31, 2019) and included 628 million euros in the current portion of financial liabilities for medium/long-term lease contracts.

With reference to the financial lease liabilities recognized in 2020 and 2019, the following is noted:

(million euros)	12.31.2020	12.31.2019
Principal reimbursements	699	792
Cash out interest portion	256	336
Total	955	1,128

Hedging derivatives relating to items classified as non-current financial liabilities amount to 1,832 million euros (1,659 million euros at December 31, 2019). Hedging derivatives relating to items classified as current financial liabilities totaled 62 million euros (62 million euros at December 31, 2019).

Non-hedging derivatives classified as non-current financial liabilities came to 10 million euros (1 million euros at December 31, 2019), while non-hedging derivatives classified under current financial liabilities amounted to 2 million euros (zero million euros at December 31, 2019). These also include the measurement of derivatives which, although put into place for hedging purposes, do not meet the formal requirements to be considered as such under IFRS.

Covenants and negative pledges in place at December 31, 2020

Bonds issued by the TIM Group do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) or clauses that result in the automatic early redemption of the bonds in relation to events other than the insolvency of the TIM Group¹; furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by TIM S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Since these bonds have been placed principally with institutional investors in main world capital markets (Euromarket and USA), the terms which regulate the bonds are in line with the market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company's assets as collateral for loans (negative pledges).

Regarding loans taken out by TIM S.p.A. from the European Investment Bank (EIB), at December 31, 2020 the nominal total of outstanding loans was 850 million euros, none of it backed by a bank guarantee.

The two EIB loans signed on December 14, 2015 and November 25, 2019 contain the following covenants:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes of or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);
- TIM undertook to ensure that, for the entire duration of the loan, the total financial debt of the Group companies other than TIM S.p.A. – except for the cases when that debt is fully and irrevocably secured by TIM S.p.A. – is lower than 35% (thirty-five percent) of the Group's total financial debt;
- "Inclusion clause", under which, in the event TIM commits to uphold financial covenants in other loan contracts (and even more restrictive clauses for the 2015 direct risk loan, including, for instance, cross default clauses and commitments restricting the sale of goods) that are not present in or are stricter than those granted to the EIB, the EIB will have the right – if, in its reasonable opinion, it considers that such changes

¹A change of control event can result in the early repayment of the convertible bond of TIM S.p.A., as further detailed below.

may have a negative impact on TIM's financial capacity – to request the provision of guarantees or an amendment of the loan contract in order to establish an equivalent provision in favor of the EIB;

- "Network Event", under which, in the event of the disposal of the entire fixed network or of a substantial part of it (in any case, more than half in quantitative terms) to third parties not controlled by the Company, or in the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, TIM must immediately inform the EIB, which may then opt to demand collateral or an amendment of the loan contract or choose an alternative solution.

The loan agreements of TIM S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed.

The loan agreements contain the usual other types of covenants, including the commitment not to pledge the Company's assets as collateral for loans (negative pledge) and the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content can be found in the export credit loan agreement.

In the Loan Agreements and the Bonds, TIM is required to provide notification of change of control. Identification of the occurrence of a change of control and the applicable consequences – including, at the discretion of the investors, the establishment of guarantees or the early repayment of the amount paid in cash or as shares and the cancellation of the commitment in the absence of agreements to the contrary – are specifically covered in the individual agreements.

In addition, the outstanding loans generally contain a commitment by TIM, whose breach is an Event of Default, not to implement mergers, demergers or transfers of business, involving entities outside the Group. Such an Event of Default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the annulment of the undrawn commitment.

The documentation of the loans granted to certain companies of the Tim Brasil group contain general obligations to comply with certain financial ratios (e.g. capitalization ratios, debt servicing ratios and debt ratios), as well as the usual other covenants, under penalty of a request for the early repayment of the loan.

Finally, as at December 31, 2020, no covenant, negative pledge or other clause relating to the debt position, had in any way been breached or violated.

Revolving Credit Facility

The following table shows committed credit lines available at December 31, 2020.

(billion euros)	12.31.2020		12.31.2019	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – maturing January 2023	5.0	—	5.0	—
Bridge to Bond Facility – maturing May 2021	1.7	—	—	—
Total	6.7	—	5.0	—

At December 31, 2020, TIM had bilateral Term Loans for 1,500 million euros with various banking counterparties and overdraft facilities for 490 million euros, drawn down for the full amount.

On May 18, 2020 TIM created a new credit line, structured as a bridge to bond, for later issuing on the bond market, for 1.7 billion euros and initially maturing after 12 months, with the option of extension for another 12 months.

On January 18, 2021, TIM issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

On January 19, 2021, TIM decided to totally cancel the unused 1.7 billion euro Bridge to Bond line.

TIM's rating at December 31, 2020

At December 31, 2020, the three rating agencies – Standard & Poor's, Moody's and Fitch Ratings – rated TIM as follows:

	Rating	Outlook
STANDARD & POOR'S	BB+	Negative
MOODY'S	Ba2	Negative
FITCH RATINGS	BB+	Stable

NOTE 18

NET FINANCIAL DEBT

The following table shows the net financial debt at December 31, 2020 and December 31, 2019, 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) and adopted by Consob.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also shows the reconciliation of the net financial debt determined according to the criteria indicated by the ESMA with the net financial debt calculated according to the criteria of the TIM Group.

(million euros)	12.31.2020	12.31.2019
Non-current financial liabilities	27,854	30,181
Current financial liabilities	4,308	3,821
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	—	655
Total Gross Financial Debt (a)	32,162	34,657
Non-current financial assets (*)		
Non-current financial receivables arising from lease contracts	(43)	(51)
Non-current hedging derivatives	(1,970)	(2,051)
(b)	(2,013)	(2,102)
Current financial assets		
Securities other than investments	(1,092)	(877)
Current financial receivables arising from lease contracts	(55)	(58)
Financial receivables and other current financial assets	(162)	(122)
Cash and cash equivalents	(4,829)	(3,138)
Financial assets relating to Discontinued operations/Non-current assets held for sale	—	(65)
(c)	(6,138)	(4,260)
Net financial debt as per Consob communication DEM/6064293/2006 (ESMA) (d=a+b+c)	24,011	28,295
Non-current financial assets (*)		
Securities other than investments	—	—
Other financial receivables and other non-current financial assets	(297)	(49)
(e)	(297)	(49)
Net financial debt (*) (f=d+e)	23,714	28,246
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(388)	(578)
Adjusted net financial debt (f+g)	23,326	27,668

(*) At December 31, 2020 and at December 31, 2019, "Non-current financial assets" (b+e) amounted to 2,310 million euros and 2,151 million euros, respectively.

(*) As regards the effects of related party transactions on net financial debt, reference should be made to the specific table included in the Note "Related party transactions".

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

Additional cash flow information required by IAS 7

(million euros)	12.31.2019	Cash movements		Non-cash movements			12.31.2020
		Receipts and/or issues	Payments and/or reimbursements	Exchange rate differences	Fair value changes	Other changes and reclassifications	
Financial payables (medium/long-term):							
Bonds	19,800		(1,437)	(490)	19	(12)	17,880
Convertible bonds	1,931					33	1,964
Amounts due to banks	4,373	577	(649)	(32)		(27)	4,242
Other financial payables	183	5	(5)	(6)		15	192
	(a) 26,287	582	(2,091)	(528)	19	9	24,278
of which short-term	2,342						2,465
Finance lease liabilities (medium/long-term):							
	5,215	850	(670)	(511)		(57)	4,827
	(b) 5,215	850	(670)	(511)	—	(57)	4,827
of which short-term	639						628
Other financial liabilities (medium/long-term):							
Hedging derivative liabilities relating to hedged items classified as non-current assets/liabilities of a financial nature	1,721			99	75	(1)	1,894
Non-hedging derivative liabilities	1			9	2		12
Other liabilities	—						—
	(c) 1,722	—	—	108	77	(1)	1,906
of which short-term	62						64
Short-term financial payables:							
Payables to banks	671					365	1,036
Other financial payables	107			2	(2)	8	115
	(d) 778	—	—	2	(2)	373	1,151
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale:							
	655	38	(29)			(664)	—
	(e) 655	38	(29)	—	—	(664)	—
Total financial liabilities (gross financial debt)							
	(f=a+b+c+d+e) 34,657	1,470	(2,790)	(929)	94	(340)	32,162
Hedging derivative receivables relating to hedged items classified as current and non-current assets/liabilities of a financial nature							
	(g) 2,152			(344)	259		2,067
Non-hedging derivative receivables	(h) 11			58	25		94
Total	(i=f-g-h) 32,494	1,470	(2,790)	(643)	(190)	(340)	30,001

Additional Cash Flow information

The value of the paid and collected interest expense recognized in the Report on Operations takes into account the movements relating to transactions in CCIRS derivatives to hedge foreign currency underlying instruments in both the asset component (collections) and liability component (payments) without netting the positions.

(million euros)	2020	2019
Interest expense paid	(1,520)	(1,750)
Interest income received	448	589
Net total	(1,072)	(1,161)

To consider the components of CCIRS derivatives as a single transaction, a representation is given with interest flows in and out shown net. This approach gives the following results:

(million euros)	2020	2019
Interest expense paid	(1,209)	(1,341)
Interest income received	137	180
Net total	(1,072)	(1,161)

NOTE 19

FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies of the TIM Group

The TIM 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-fulfillment 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 central level, of guidelines for directing operations;
- the work of an internal 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 TIM Group are described below.

Identification of risks and analysis

The TIM 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, mainly in Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the TIM 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.

The Group defines an optimum composition of its debt structure by balancing fixed and variable-rates and uses derivative financial instruments to achieve that debt composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been identified, on the basis of the nominal amount, in the 65%-75% range for the fixed-rate component and in the 25%-35% range for the variable-rate component.

In managing market risk, the Group has adopted Guidelines on "Management and control of financial risk" and 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 – principally in US dollars and British pounds – to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for managing exchange rate and interest rate risks 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 a non-negative outlook. The exposure to the various market risks can be measured by using the sensitivity analysis, 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, 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, 2020;
- 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 the interest rate risk;
- changes in the 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.

Exchange rate risk – Sensitivity analysis

At December 31, 2020 (and also at December 31, 2019), 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 the exchange rate risk.

Interest rate risk – Sensitivity analysis

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while 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, 2020 the interest rates in the various markets in which the TIM 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 36 million euros (54 million euros at December 31, 2019).

Refer to Note "Accounting Policies" for the potential risk generated by the reform of benchmark interest rates.

Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. These tables have been prepared by taking into account the nominal repayment/investment amount (since that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (as in the case of bank deposits), has been considered in the variable rate category.

Total Financial liabilities (at the nominal repayment amount)

(million euros)	12.31.2020			12.31.2019		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	14,698	4,551	19,249	16,402	4,760	21,162
Loans and other financial liabilities	5,402	3,836	9,238	5,550	3,884	9,434
Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	20,100	8,387	28,487	21,952	8,644	30,596
Total current financial liabilities (*)	602	546	1,148	495	278	773
Total excluding Held for Sale	20,702	8,933	29,635	22,447	8,922	31,369
Held for Sale	—	—	—	627	30	657
Total	20,702	8,933	29,635	23,074	8,952	32,026

Total Financial assets (at the nominal investment amount)

(million euros)	12.31.2020			12.31.2019		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash and cash equivalents	—	4,433	4,433	—	2,655	2,655
Securities	638	837	1,475	604	749	1,353
Other receivables	747	54	801	787	104	891
Total excluding Held for Sale	1,385	5,324	6,709	1,391	3,508	4,899
Held for Sale	—	—	—	—	65	65
Total	1,385	5,324	6,709	1,391	3,573	4,964

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, which is provided by class of financial asset and liability, has been determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and

fair value adjustments: this is therefore the amortized cost, net of accruals and any changes in fair value, as a consequence of hedge accounting.

Total financial liabilities

(million euros)	12.31.2020		12.31.2019	
	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	19,117	4.47	20,978	4.53
Loans and other financial liabilities	10,341	3.54	10,506	4.12
Total excluding Held for Sale	29,458	4.14	31,484	4.39
Held for Sale	—	—	650	2.56
Total	29,458	4.14	32,134	4.36

Total Financial assets

(million euros)	12.31.2020		12.31.2019	
	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Cash and cash equivalents	4,433	0.01	2,655	0.05
Securities	1,475	0.36	1,353	0.33
Other receivables	362	1.25	153	3.35
Total excluding Held for Sale	6,270	0.16	4,161	0.26
Held for Sale	—	—	65	0.00
Total	6,270	0.16	4,226	0.26

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

As for market risk management using derivatives, reference should be made to the Note "Derivatives".

Credit risk

Exposure to credit risk for the TIM 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. TIM 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, excluding guarantees received, described in the Note "Disputes and pending legal actions, other information, commitments and guarantees".

Risk related to trade receivables is managed using customer scoring and analysis systems. For specific categories of trade receivables, the Group also makes use of factoring, mainly on a "non-recourse" basis.

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 the post-default financial asset.

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, the default probability is obtained.

As regards the current COVID-19 pandemic, use of the Bloomberg Credit Risk Model, which, as mentioned, also takes into account the political and economic situation of the various Countries in the short and medium/long-term (from 3 months to 5 years), ensures that all risk components are adequately reflected in the measurement of the credit risk.

In order to improve credit risk and reduce pressure on working capital, in February 2020, the corporate joint venture TIM-SCB JV S.p.A. was established, with an investment of 51% by Santander Consumer Bank (SCB) and 49% by TIM. The partnership with SCB aims to develop and distribute financial products to finance the purchase by TIM customers of products relative to the world of telecommunications and the transfer without recourse of trade receivables.

On November 3, 2020, the new corporate entity received authorization from the Bank of Italy to grant loans to the public in accordance with Article 106 et seq. of the Consolidated Banking Act (TUB). In the last few months of 2020 and early 2021, various corporate steps were completed, including the change in the company name from TIM-SCB JV S.p.A. to TIMFin S.p.A.

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 medium-term liquidity, as well as the improvement of the average yield of the assets.

In order to mitigate the risk of the non-fulfillment 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 and with a non-negative outlook, and 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 risk level. All investments have been carried out in compliance with the Group Guidelines on "Management and control of financial risk".

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.

As at December 31, 2020, the liquidity margin available for the TIM Group is 12,621 million euros, with an increase of 3,606 million euros with respect to end 2019 (9,015 million euros). The impact of the COVID-19 pandemic has not, therefore, entailed any liquidity risk. Furthermore, on January 18, 2021, TIM S.p.A. issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

13% of gross financial debt at December 31, 2020 (nominal repayment amount) will become due in the next 12 months.

Current financial assets at December 31, 2020, together with unused committed bank lines, are sufficient to fully cover the Group's financial liabilities due for the next 30 months.

The following tables report the undiscounted contractual cash flows of gross financial debt at nominal repayment amounts and the interest flows, determined by using conditions and interest/exchange rates at December 31, 2020. The portions of principal and interest of the hedged liabilities includes both the

disbursements and the receipts of the relative hedging derivatives. Specifically, the interest portions of "Loans and other financial liabilities" also include those relating to derivatives hedging for both loans and bonds.

Financial liabilities – Maturities of contractually expected disbursements

(million euros)		maturing by 12/31 of the year:						Total
		2021	2022	2023	2024	2025	After 2025	
Convertible bonds	Principal	564	3,101	2,417	3,222	2,000	7,945	19,249
	Interest portion	800	763	705	591	481	4,089	7,429
Loans and other financial liabilities (*)	Principal	1,467	1,265	650	189	579	317	4,467
	Interest portion	(88)	(58)	(65)	(55)	(40)	(338)	(644)
Finance lease liabilities	Principal	572	575	525	508	429	2,162	4,771
	Interest portion	245	218	191	165	141	507	1,467
Non-current financial liabilities	Principal	2,603	4,941	3,592	3,919	3,008	10,424	28,487
	Interest portion	957	923	831	701	582	4,258	8,252
Current financial liabilities	Principal	1,148	—	—	—	—	—	1,148
	Interest portion	3	—	—	—	—	—	3
Total	Principal	3,751	4,941	3,592	3,919	3,008	10,424	29,635
	Interest portion	960	923	831	701	582	4,258	8,255

(*) These include hedging and non-hedging derivatives.

Derivatives on financial liabilities – Contractually expected interest flows

(million euros)		maturing by 12/31 of the year:						Total
		2021	2022	2023	2024	2025	After 2025	
Disbursements		293	293	287	238	215	1,908	3,234
Receipts		(391)	(390)	(381)	(313)	(276)	(2,353)	(4,104)
Hedging derivatives – net disbursements (receipts)		(98)	(97)	(94)	(75)	(61)	(445)	(870)
Disbursements		232	79	5	12	4	—	332
Receipts		(270)	(77)	(7)	(17)	(4)	—	(375)
Non-Hedging derivatives – net disbursements (receipts)		(38)	2	(2)	(5)	—	—	(43)
Total net disbursements (receipts)		(136)	(95)	(96)	(80)	(61)	(445)	(913)

Market value of derivative instruments

In order to determine the fair value of derivatives, the TIM 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, is not 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 CCIRs, 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 CCIRs involve the exchange of the reference interest and principal, in the respective denomination currencies.

Options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: the lifetime horizon of the option, the risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying financial instrument, and the exercise price.

NOTE 20

DERIVATIVES

For hedge accounting we continued to apply the rules established by IAS 39.

Derivative financial instruments are used by the TIM Group to hedge its exposure to foreign exchange rate risks, 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 existing at December 31, 2020 are principally used to manage debt positions. They include interest rate swaps (IRSs) used to reduce the interest rate exposure of fixed-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 predict or may entail, at specified maturity dates, the exchange of interest flows with counterparties, calculated on a reference notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS, which may predict, in addition to the settlement of periodic interest flows, the exchange of reference principal in the respective denomination currencies, at maturity and possibly spot.

Hedging: economic relationship between underlying instrument and derivatives

Hedging relationships recorded in hedge accounting at 12/31/2020 belong to two categories: i) hedging of the fair value of bond issues denominated in euros and ii) hedging of cash flows from income flows of bond issues denominated in currencies other than the euro.

In the first case, the hedged risk is represented by the fair value of the bond attributable to euro interest rates and is hedged by IRS. The current value of both the underlying and derivative instruments, depends on the structure of the Euro market interest rates at the basis of the calculation of discount factors and floating interest flows of the derivative. In particular, interest rate fluctuations translate as changes in the discount factors of the fixed-interest expense flow on the underlying instrument; on the derivative, changes in the discount factor of interest income will occur, as well as changes in the nominal flow of variable interest (only partially corrected by the discounting effect). The effects induced on the derivative are opposite, in accounting terms, to the effects on the underlying instrument.

In the second case, the hedged risk is represented by the variability in *cash flows* (and the repayment of the nominal amount) generated by exchange rates; hedging comprises combinations of IRS and CCIRS that synthetically transform fixed rate foreign currency income flows into fixed rate euro flows. In this case, exchange rate oscillations will usually produce contrary effects on the underlying and on the derivative as the asset leg of the latter faithfully reflects the underlying, while the liability leg is denominated in euros and is therefore insensitive to the exchange rate.

Hedges: determination of the hedge ratio

The types of hedging implemented by the Group require the adoption of a hedge ratio equal to 1:1, as the types of risk hedged (interest rate and exchange rate risks) are such as to generate economic effects in the underlying instruments that can only be offset by the same notional quantities of derivative instruments.

Hedges: potential sources of ineffectiveness

The contractualization of derivatives to hedge financial risks takes place at arm's length and aims to completely neutralize the effects produced by such instruments.

However, in practice, both fair value hedges and cash flows hedges, although financially perfect, may not guarantee an absolute accounting effectiveness due to the many counterparty banks involved, to the peculiar nature of certain derivatives in terms, for example, of fixing and/or indexing of variable parameters, and to the possible imperfect coincidence between critical terms.

The following table indicates total financial derivatives of the TIM Group at December 31, 2020 and 2019; in compliance with standard IFRS 7, notional amounts are shown with reference to all the derivative instruments involved in the hedges.

The following tables break down financial derivatives by type of risk for each kind of hedging, separating financial assets and liabilities. For CCIRS, the notional amount refers to the contractual value in euros, for IRS in a currency other than the euro, the value is indicated at the market exchange rate.

Type (million euros)	Hedged risk	Notional amount at 12/31/2020	Notional amount at 12/31/2019	Spot Mark-to- Market (*)Clean Price) at 12/31/2020	Spot Mark-to- Market* (Clean Price) at 12/31/2019
Interest rate swaps	Interest rate risk	4,334	4,334	192	152
Cross Currency and Interest Rate Swaps (CCIRS)	Interest rate risk and currency exchange rate risk	—	—	—	—
Total Fair Value Hedge Derivatives		4,334	4,334	192	152
Interest rate swaps	Interest rate risk	5,594	4,871	421	258
Cross Currency and Interest Rate Swaps (CCIRS)	Interest rate risk and currency exchange rate risk	5,042	5,206	(519)	(57)
Total Cash Flow Hedge Derivatives		10,636	10,077	(98)	201
Total Non-Hedge Accounting Derivatives		604	151	82	10
Total TIM Group's Derivatives		15,574	14,562	176	363

* The Spot Mark-to-Market above represents the market valuation of the derivative, net of the accrued portion of the flow in progress.

Fair value hedges (million euros)	Accounting item		Notional value	Carrying amount	Change in fair value for the year
Interest rate swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets.	a)	4,334	192	41
Assets				192	
Liabilities				—	
Cross Currency and Interest Rate Swaps (CCIRS)	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets.	b)	—	—	—
Assets				—	
Liabilities				—	
Derivative instruments (spot value)		a)+b)	4,334	192	41
Accruals				24	
Derivative instruments (gross value)				216	
Underlying instruments ⁽¹⁾	Bonds - Current/non-current liabilities		4,334	(4,504)	
of which the fair value adjustment	Fair value adjustment and measurements at amortized cost	c)		(186)	(38)
Ineffectiveness		a)+b)+c)			3
Fair value adjustment for hedging settled in advance ⁽²⁾				(116)	

(1) Includes the amortized cost value of bonds currently hedged plus the fair value adjustment.

(2) Referred to bonds no longer hedged, which are therefore not presented in the table.

Cash flow hedges (million euros)	Accounting item		Notional value	Carrying amount	Change in fair value for the year	Change in cumulative fair value
Interest rate swaps	Hedging derivatives relating to hedged items classified as current /(non current) assets/liabilities of a financial nature - Current/non-current	a)	5,594	421	163	
Assets				1,405	212	
Liabilities				(984)	(49)	
Cross Currency and Interest Rate Swaps (CCIRS)	Hedging derivatives relating to hedged items classified as current/(non current) assets/liabilities of a financial nature - Current/non-current	b)	5,042	(519)	(462)	
Assets				329	(337)	
Liabilities				(848)	(125)	
Derivative instruments (spot value)		a)+b)	10,636	(98)	(299)	
Accruals				55		
Derivative instruments (gross value)				(43)		
of which equity reserve gains and losses					167	
Determination of ineffectiveness						
Change in derivatives		c)				24
Change in underlying instruments ⁽³⁾		d)				(2)
Ineffectiveness ⁽⁴⁾	Positive fair value adjustment of financial derivatives - non-hedging	c)+d)				19
Equity reserve						
Equity reserve balance				(460)		
of which due to the fair value of hedging settled in advance				(1)		
Reclassification to P&L	Negative reversal of the reserve for the fair value adjustment of hedging derivatives (cash flow hedges)				—	

(3) Hypothetical derivatives used in measuring the effectiveness of cash flow hedges.

(4) The ineffectiveness, due to its nature and calculation, does not necessarily coincide with the difference in cumulative changes in the fair value of derivatives and the underlying instrument; the effect due to the adoption of CVA/DVA is not considered.

The change in the equity reserve attributable to the effective hedging component is equal to 167 million euros and comprises:

Changes in the equity cash flow hedge reserve (million euros)	Balance 12/31/2019	Changes				Balance 12/31/2020
		Hedging instrument gains / losses	Reversal from reclassification	Reversal from fair value adjustment of hedging settled in advance	Other	
	(580)					(460)
Change in the effective fair value of derivatives		167				
Change in the CVA/DVA		(66)				
Reversal for ineffectiveness 2019			16			
Amortization in P&L of the fair value of hedging settled in advance				—		
Other					4	
Overall change						120

None of the parameters represented includes any income tax effect.

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:

Denomination currency	Notional amount in denomination currency	Start of period	End of period	Rate applied	Interest period	Hedging of notional amount in euro	Hedging of rate in euro
GBP	375	Jan-21	May-23	5.875%	Annually	552	5.535%
JPY*	20,000	Jan-21	Oct-29	5.000%	Semiannually	174	5.940%
JPY**	20,000	Jan-21	Oct-29	0.750%	Semiannually	138	0.696%
USD	1,000	Jan-21	Nov-33	6.375%	Semiannually	849	5.994%
USD	1,500	Jan-21	May-24	5.303%	Semiannually	1,099	4.226%
USD	1,000	Jan-21	Sept-34	6.000%	Semiannually	794	4.332%
USD	1,000	Jan-21	July-36	7.200%	Semiannually	791	5.884%
USD	1,000	Jan-21	Jun-38	7.721%	Semiannually	645	7.470%

* Income cash flows are denominated in USD and calculated on a notional amount of USD 187.6 million.

** Hedging of the sole income cash flow following a step-up on the loan.

The method selected to test the effectiveness retrospectively and, whenever the main terms do not fully coincide, prospectively, for cash flow hedge derivatives and fair value hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (meaning the derivative and the item hedged) and the risk of the hedged item taken individually. In essence, the portfolio risk must be significantly lower than the risk of the hedged item.

NOTE 21

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, the majority of the non-current financial liabilities of the TIM Group consist of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that, due to their size and diffusion among investors, are commonly traded on the relevant markets (see Note "Non-current and current financial liabilities"). For other types of financing, however, the following assumptions have been made in determining fair value:

- for variable-rate loans, the nominal repayment amount has been assumed;
- for fixed-rate loans, the present value of future cash flows at the market interest rates of December 31, 2020 has been assumed;
- the carrying amount has been used for some types of loans granted by government institutions for social development purposes, for which fair value cannot be reliably calculated.

Lastly, 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.

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

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

The following tables contain, for assets and liabilities at December 31, 2020 and December 31, 2019 and in accordance with the categories established by IFRS 9, the supplementary information on financial instruments required by IFRS 7 and the schedules of gains and losses. They do not include Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale.

Key for IFRS 9 categories

		Acronym
Financial assets measured at:		
Amortized cost	Amortized cost	AC
Fair value through other comprehensive income	Fair value through other comprehensive income	FVTOCI
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Financial liabilities measured at:		
Amortized cost	Amortized cost	AC
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2020

(million euros)	IFRS 9 categories	Notes	Carrying amount in financial statements at 12/31/2020	Amounts recognized in financial statements			Levels of hierarchy or of fair value			Amounts recognized in the financial statements pursuant to IFRS 16	Fair Value at 12/31/2020
				Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value through profit or loss	Level 1	Level 2	Level 3		
ASSETS											
Financial assets measured at amortized cost	AC		8,263	8,263	—	—					8,263
Non-current assets											
Receivables from employees		(10)	40	40							
Other financial receivables		(10)	213	213							
Miscellaneous non-current receivables		(11)	151	151							
Current assets											
Receivables from employees		(10)	13	13							
Other short-term financial receivables		(10)	2	2							
Cash and cash equivalents		(10)	4,829	4,829							
Trade receivables		(14)	2,905	2,905							
Other current receivables		(14)	85	85							
Contract assets		(14)	25	25							
Financial assets measured at fair value through other comprehensive income	FVTOCI		821	—	821	—					821
Non-current assets											
Other investments		(9)	54		54		—	16	38		
Securities other than investments		(10)	—		—		—				
Current assets											
Trade receivables:		(14)			—						
Securities other than investments		(10)	767		767		767				
Financial assets measured at fair value through profit or loss	FVTPL		419	—	—	419					419
Non-current assets											
Non-hedging derivatives		(10)	44			44		44	—		
Current assets											
Securities other than investments		(10)	325			325	325				
Non-hedging derivatives		(10)	50			50		50			
Hedging Derivatives	HD		2,067	—	1,851	216					2,067
Non-current assets											
Hedging derivatives		(10)	1,970		1,778	192		1,970	—		
Current assets											
Hedging derivatives		(10)	97		73	24		97	—		
Financial receivables for lease contracts	n.a.		98							98	98
Non-current assets		(10)	43							43	
Current assets		(10)	55							55	
Total			11,668	8,263	2,672	635	1,092	2,177	38	98	11,668

The financial instruments belonging to hierarchy level 3 of fair value are represented by the following Other investments recognized as Non-current assets, for which directly or indirectly observable prices on the market are not available:

- Northgate CommsTech Innovations Partners L.P.;
- Banca UBAE;
- Istituto Europeo di Oncologia;
- Other minor companies.

Northgate CommsTech Innovations Partners L.P. was measured based on the latest available Net Asset Value reported by the fund manager.

Banca UBAE, Istituto Europeo di Oncologia and the other minor companies were measured on the basis of an analysis, deemed reliable, of their main assets and liabilities.

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.

(million euros)	IFRS 9 categories	Notes	Carrying amount in financial statements at 12/31/2020	Amounts recognized in financial statements			Levels of hierarchy or of fair value		Amounts recognized in the financial statements pursuant to IFRS 9	Fair Value at 12/31/2020	
				Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value through profit or loss	Level 1	Level 2			
LIABILITIES											
Financial liabilities measured at amortized cost	AC/HD		29,875	29,875						32,299	
Non-current liabilities											
Financial payables (medium/long-term)	(17)	21,813	21,813								
Current liabilities											
Financial payables (short-term)	(17)	3,613	3,613								
Trade and miscellaneous payables and other current liabilities	(25)	4,329	4329								
Contract liabilities	(25)	120	120								
Financial liabilities measured at fair value through profit or loss	FVTPL		12			12				12	
Non-current liabilities											
Non-hedging derivatives	(17)	10				10		10			
Current liabilities											
Non-hedging derivatives	(17)	2				2		2			
Hedging Derivatives	HD	1,894		1,894		—				1,894	
Non-current liabilities											
Hedging derivatives	(17)	1,832		1,832		—		1,832			
Current liabilities											
Hedging derivatives	(17)	62		62		—		62			
Financial liabilities for lease contracts	n.a.	4,830							4,830	5,103	
Non-current liabilities	(17)	4,199							4,199		
Current liabilities	(17)	631							631		
Total		36,611	29,875	1,894	12	—	1,906	4,830	39,308		

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2019

(million euros)	IFRS 9 categories	Notes	Carrying amount at 12/31/2019	Amounts recognized in financial statements			Levels of hierarchy or of fair value			Amounts recognized in the financial statements pursuant	Fair Value at 12/31/2019
				Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value through profit or loss	Level 1	Level 2	Level 3		
ASSETS											
Financial assets measured at amortized cost	AC		6,847	6,847	—	—					6,847
Non-current assets											
Receivables from employees		(10)	43	43							
Other financial receivables		(10)	—	—							
Miscellaneous non-current receivables		(11)	245	245							
Current assets											
Receivables from employees		(10)	13	13							
Other short-term financial receivables		(10)	3	3							
Cash and cash equivalents		(10)	3,138	3,138							
Trade receivables		(14)	3,252	3,252							
Other current receivables		(14)	119	119							
Contract assets		(14)	34	34							
Financial assets measured at fair value through other comprehensive income	FVTOCI		780	—	780	—					780
Non-current assets											
Other investments		(9)	52		52		—	21	31		
Securities other than investments		(10)	—		—		—				
Current assets											
Trade receivables:		(14)			—						
Securities other than investments		(10)	728		728		728				
Financial assets measured at fair value through profit or loss	FVTPL		160	—	—	160					160
Non-current assets											
Non-hedging derivatives		(10)	6			6		6	—		
Current assets											
Securities other than non-hedging derivatives		(10)	149			149	149				
Non-hedging derivatives		(10)	5			5		5			
Hedging Derivatives	HD		2,152	—	1,979	173					2,152
Non-current assets											
Hedging derivatives		(10)	2,051		1,899	152		2,051	—		
Current assets											
Hedging derivatives		(10)	101		80	21		101	—		
Financial receivables for lease contracts	n.a.		109							109	109
Non-current assets		(10)	51							51	
Current assets		(10)	58							58	
Total			10,048	6,847	2,759	333	877	2,184	31	109	10,048

(million euros)	IFRS 9 categories	Notes	Carrying amount at 12/31/2019	Amounts recognized in financial statements			Levels of hierarchy or of fair value		Amounts recognized in the financial statements pursuant to	Fair Value at 12/31/2019
				Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value through profit or loss	Level 1	Level 2		
LIABILITIES										
Financial liabilities measured at amortized cost	AC/HD		31,745	31,745						33,126
Non-current liabilities										
Financial payables (medium/long-term)		(17)	23,945	23,945						—
Current liabilities										
Financial payables (short-term)		(17)	3,120	3,120						—
Trade and miscellaneous payables and other current liabilities		(25)	4,527	4,527						
Contract liabilities		(25)	153	153						
Financial liabilities measured at fair value through profit or loss	FVTPL		1			1				1
Non-current liabilities										
Non-hedging derivatives		(17)	1			1		1		
Current liabilities										
Non-hedging derivatives		(17)	—			—		—		
Hedging Derivatives	HD		1,721		1,721	—				1,721
Non-current liabilities										
Hedging derivatives		(17)	1,659		1,659	—		1,659		
Current liabilities										
Hedging derivatives		(17)	62		62	—		62		
Financial liabilities for lease contracts	n.a.		5,215						5,215	5,664
Non-current liabilities			4,576						4,576	
Current liabilities			639						639	
Total			38.682	31.745	1.721	1	—	1.722	5.215	40.512

Gains and losses by IFRS 9 category - Year 2020

(million euros)	IFRS 9 categories	Net gains/(losses) 2020	of which interest
Assets measured at amortized cost	AC	(441)	23
Assets and liabilities measured at fair value through profit or loss	FVTPL	108	
Assets measured at fair value recognized in the statements of comprehensive income	FVTOCI	3	
Liabilities measured at amortized cost	AC	(967)	961
Total		(1,297)	984

Gains and losses by IFRS 9 category - Year 2019

(million euros)	IFRS 9 categories	Net gains/(losses) 2019 (1)	of which interest
Assets measured at amortized cost	AC	(584)	34
Assets and liabilities measured at fair value through profit or loss	FVTPL	(2)	
Assets measured at fair value recognized in the statements of comprehensive income	FVTOCI	2	
Liabilities measured at amortized cost	AC	(1,099)	1,082
Total		(1,683)	1,116

(1) of which 2 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

NOTE 22

PROVISIONS FOR EMPLOYEE BENEFITS

These decreased by 661 million euros compared to December 31, 2019. The figure breaks down as follows:

	12.31.2018	Increases/ Present value	Decrease	Exchange differences and other changes	Held for sale INWIT	12.31.2019
(million euros)						
Provision for employee severance indemnities (a)	887	44	(88)	—	(2)	841
Provision for pension and other plans	22	4	(2)			24
Provision for termination benefit incentives and corporate restructuring	710	256	(402)	(5)		559
Total other provisions for employee benefits (b)	732	260	(404)	(5)	—	583
Total (a+b)	1,619	304	(492)	(5)	(2)	1,424
<i>of which:</i>						
non-current portion	1,567					1,182
current portion (*)	52					242

(*) The current portion refers only to Other provisions for employee benefits.

	12.31.2019	Increases/ Present value	Decrease	Exchange differences and other changes	12.31.2020
(million euros)					
Provision for employee severance indemnities (a)	841	—	(142)	2	701
Provision for pension and other plans	24	1	(2)	—	23
Provision for termination benefit incentives and corporate restructuring	559	34	(552)	(2)	39
Total other provisions for employee benefits (b)	583	35	(554)	(2)	62
Total (a+b)	1,424	35	(696)	—	763
<i>of which:</i>					
non-current portion	1,182				724
current portion (*)	242				39

(*) The current portion refers only to Other provisions for employee benefits.

The **Provision for employee severance indemnities (T.F.R.)** only refers to Italian companies and decreased on the whole by 140 million euros. The decreases of 142 million euros relating to indemnities paid during the year to employees who terminated employment or for advances.

The invariance recorded in "Increases/Present value" is as follows:

(million euros)	2020	2019
(Positive)/negative effect of curtailment	(1)	(8)
Current service cost (*)	—	—
Finance expenses	6	10
Net actuarial (gains) losses for the year	(5)	42
Total	—	44
Effective return on plan assets	there are no plan assets	

(*) The fees to be paid in to the INPS Treasury Fund or to supplementary pension schemes are accounted for under "Employee benefits expenses" as "Social security expenses", the item that only includes the expenses of companies with less than 50 employees.

The positive impact of the curtailment, amounting to 1 million euros, was linked to extraordinary advances made in respect of the previous processing.

The net actuarial gains recognized at December 31, 2020 amounted to 5 million euros (net actuarial losses of 42 million euros in 2019), are essentially connected with the inflation rate forecast, which went from 1.2% at December 31, 2019 to 0.8% at December 31, 2020; the discount rate also changed, going from the 0.77% used at December 31, 2019 to 0.34% at December 31, 2020.

According to national law, the amount of provision for employee severance indemnities to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-set interest. The liability is not associated with any vesting condition or period or any funding obligation; accordingly, there are no assets servicing the provision. The liability is recognized net of the partial prepayments of the provision and payments of the amounts obtained by employees for the reasons permitted by the applicable regulations.

Under the regulations introduced by Italian Legislative Decree 252/2005 and Law no. 296/2006 with which, for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a "defined contribution plan".

However, for all companies, the revaluations of the amounts in the provision for employee severance indemnities existing at the election date, and also the amounts accrued and not assigned to supplementary pension plans for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In accordance with IAS 19, the provision has been recognized as a "defined benefit plan".

In application of IAS 19, employee severance indemnities have been calculated using the "Projected Unit Credit Method" as follows:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.). The estimate of future benefits includes any increases for additional service seniority, as well as the estimated increase in the compensation level at the measurement date – only for employees of companies with less than 50 employees during the year 2006;
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and of the probability that each benefit actually has to be paid;
- the liability of each company concerned has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees during the year 2006) or by identifying the amount of the average present value of future benefits which refer to the past service already accrued by the employee in the company at the measurement date (for the others), i.e. adopting the "service pro-rate".

The following assumptions have been made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
Inflation rate	0.80% per annum	0.80% per annum
Discount rate	0.34% per annum	0.34% per annum
Employee severance indemnities annual increase rate	2.10% per annum	2.10% per annum
Annual real wage growth:		
equal to or less than 40 years of age	1.0% per annum	1.0% per annum
over 40 but equal to or less than 55 years of age	0.5% per annum	0.5% per annum
over 55 years of age	0.0% per annum	0.0% per annum
DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
Probability of death	Mortality tables RG48 other advertising by Ragioneria Generale dello Stato	Mortality tables RG48 other advertising by Ragioneria Generale dello Stato
Probability of disability	INPS tables divided by age and sex	INPS tables divided by age and sex
Probability of resignation:		
up to 40 years of age	2.00%	1.00%
from 41 to 50 years of age	2.00%	0.50%
from 51 to 59 years of age	1.00%	0.50%
from 60 to 64 years of age	None	0.50%
over 65 years of age	None	None
Probability of retirement	100% on achievement of the AGO requirements aligned with D.L. 4/2019	
Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70%	1.5% per annum	1.5% per annum

The application of the above assumptions resulted in a liability for employee severance indemnities of 701 million euros at December 31, 2020 (841 million euros at December 31, 2019).

Reported below is a sensitivity analysis for each significant actuarial assumption adopted to calculate the liability as at year end, showing how the liability would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date, stated in amounts.

The weighted average duration of the obligation of the Parent amounted to 10.2 years.

CHANGES IN ASSUMPTIONS	Amounts (million euros)
Turnover rate:	
+0.25 p.p.	2
- 0.25 p.p.	(2)
Annual inflation rate:	
+0.25 p.p.	(11)
- 0.25 p.p.	11
Annual discount rate:	
+0.25 p.p.	15
- 0.25 p.p.	(15)

The **Provision for pension and other plans** amounted to 23 million euros at December 31, 2020 (24 million euros at December 31, 2019) and mainly represented pension plans in place at foreign companies of the Group.

The **Provision for termination benefit incentives and corporate restructuring** decreased in total by 520 million euros, mainly as a result of redundancies and the reclassification to payables of amounts not yet paid, relating to plans already set aside in previous years (overall equal to 552 million euros). Increases, amounting to 34 million euros, are related to the effective exits of the Parent Company in the year 2020 (also through the application of Article 4 of Law 92 of June 28, 2012, as defined by that in the Trade Union Agreement of February 26, 2019 and the Trade Union Agreement signed June 4, 2020) and to the provision made for exits based on the application of Article 4 of Law 92 of June 28, 2012 following the agreements signed with trade unions on April 22, 2020 by Olivetti and Telecom Italia Trust Technologies, and on April 17, 2020 by Telecontact.

NOTE 23

PROVISIONS FOR RISKS AND CHARGES

These decreased compared to December 31, 2019, by 147 million euros and are broken down as follows:

(million euros)	12.31.2019	Increase	Taken to the Income Statement	Used directly	Exchange differences and other changes	12.31.2020
Provision for taxation and tax risks	83	7	(1)	(3)	(19)	67
Provision for restoration costs	260	18	—	(7)	3	274
Provision for legal disputes	869	85	—	(178)	(29)	747
Provision for commercial risks	30	1	(1)	(7)	6	29
Provision for risks and charges on investments and corporate transactions	21	—	—	—	—	21
Other provisions	26	1	—	(23)	—	4
Total	1,289	112	(2)	(218)	(39)	1,142
of which:						
non-current portion	725					770
current portion	564					372

The non-current portion of provisions for risks and charges mainly related to the provision for restoration costs and some of the provision for legal disputes. More specifically, in accordance with accounting policies, the total amount of the provision for restoration costs is calculated by re-measuring the amounts for which a probable outlay is envisaged, based on the estimated inflation rates for the individual due dates, and subsequently discounted to the reporting date based on the average cost of debt, taking into account expected cash outflows.

The **provision for taxation and tax risks** decreased by 16 million euros compared to December 31, 2019. This change mainly reflects the transactions involving the Brazil Business Unit, as well as the effect of changes in exchange rates (-22 million euros), again attributable to the Brazil Business Unit.

The **provision for restoration costs** refers to the provision for the costs expected to be incurred for the restoration of leased properties and sites used in the mobile telephony sector and for the dismantling of certain assets (particularly batteries and wooden piling) mainly by the parent company (268 million euros) and the Brazil Business Unit (5 million euros).

The **provision for legal disputes** included the provision for litigation with employees and other counterparties.

At December 31, 2020, it included 666 million euros for the Parent and 76 million euros for the Brazil Business Unit. Draw downs mainly related to the Domestic Business Unit (123 million euros) and the Brazil Business Unit (55 million euros) and were mainly related to settlement agreements reached.

The **provision for commercial risks** relates to the Domestic Business Unit and mainly the Parent Company TIM S.p.A.

The **provision for risks and charges on investments and corporate-related transactions** is unchanged compared to the previous year.

Other provisions for risks and charges decreased by 22 million euros compared to December 31, 2019 and was essentially attributable to the Domestic Business Unit.

NOTE 24

MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities rose by 388 million euros compared to December 31, 2019. The figure breaks down as follows:

(million euros)	12.31.2020	12.31.2019
Miscellaneous non-current payables		
Payables to social security agencies	501	379
Income tax payables (*)	493	61
Other payables	1,748	1,808
(a)	2,742	2,248
Other non-current liabilities		
Deferred revenues from customer contracts (Contract liabilities)	106	94
Other deferred revenue and income	460	553
Capital grants	294	319
(b)	860	966
Total	(a+b) 3,602	3,214

(*) Analyzed in the Note "Income tax expense".

Miscellaneous non-current payables include:

- **Payables to social security agencies** amounting to 501 million euros, mainly relating to the aforementioned debt position with INPS for the application of the 2015 and subsequent agreements signed in 2018, 2019 and 2020, relating to Article 4, paragraphs 1-7ter, of Law 92 of June 28, 2012 (for further details see the Note "Employee benefits expenses"). This debt position (non-current and current portion) is as follows:

(million euros)	12.31.2020	12.31.2019
Non-current payables		
Due from 2 to 5 years after the end of the reporting period	494	369
Due beyond 5 years after the end of the reporting period	7	10
	501	379
Current payables	298	217
Total	799	596

- **other payables** equal to 1,748 million euros at December 31, 2020. The item mainly refers to the debt for the non-current portion, equal to 1,738 million euros (55 million euros recognized as current payables) for the purchase - which took place in 2018 - of the rights-of-use for the frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, to be allocated on 5G mobile communication services.

The **other non-current liabilities** include:

- **Deferred revenues from contracts with customers (contract liabilities)** of 106 million euros (94 million euros at December 31, 2019) which are reversed to the income statement according to the duration of the contractual obligations between the parties, averaging 24 months; therefore, the balance as at December 31, 2020 will be reversed to the income statement generally by 2022. In particular, the item includes:
 - TIM S.p.A. deferred revenues for subscription charges and rent and maintenance payments (64 million euros);
 - TIM S.p.A. deferred revenues for network access subscription charges (28 million euros).
 - Deferred revenues for activation and installation fees charged on new TIM S.p.A. customer contracts (8 million euros): in this regard, it is noted that under IFRS 15 activation/installment revenues are allocated to other contract obligations and recognized throughout the period of performance of the contract, as they do not relate to separate performance obligations;
- **Other deferred revenue and income** totaling 460 million euros; the item consisted of the non-current portion (approx. 115 million euros) of the deferred gain on the sale and lease-back of telecommunication towers by the Brazil Business Unit; this item also includes deferred revenues related to agreements for the sale of the transmission capacity (lease operating income).
- **Capital grants**, which came to 294 million euros at December 31, 2020: the item represents the component still to be released to the income statement based on the remaining useful life (estimated at around 18 years) of the assets that the grants refer to and is mainly connected to the development of the infrastructures on the Ultra-Broadband-UBB and Broadband-BB projects.

NOTE 25

TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

These decreased by 630 million euros compared to December 31, 2019. The figure breaks down as follows:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Trade payables				
Payables due to suppliers	3,689	3,689	3,937	3,937
Payables to other telecommunication operators	444	444	386	386
(a)	4,133	4,133	4,323	4,323
Tax payables	(b)		245	
Miscellaneous payables				
Payables for employee compensation	166		197	
Payables to social security agencies	428		338	
Payables for TLC operating fee	80		15	
Dividends approved, but not yet paid to shareholders	33	33	50	50
Other	263	163	300	154
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year	39		242	
Provisions for risks and charges for the current portion expected to be settled within 1 year	372		564	
(c)	1,381	196	1,706	204
Other current liabilities				
Liabilities from customer contracts (Contract liabilities)	741	120	823	153
Other deferred revenue and income	86		101	
Other	21		20	
(d)	848	120	944	153
Total	(a+b+c+d) 6,588	4,449	7,218	4,680

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

Trade payables amounting to 4,133 million euros (4,323 million euros at December 31, 2019), mainly refer to TIM S.p.A. (3,198 million euros) and to the companies of the Brazil Business Unit (528 million euros); as regards TIM S.p.A., the reduction in trade payables reflects the trend in payments of bills payable.

Tax payables amounted to 226 million euros and mainly consisted of both the tax payables of the Brazil Business Unit (103 million euros) and the related payables of TIM S.p.A.: the amount owed to the tax authorities for tax payables withheld as withholding agent (72 million euros), the VAT payable (24 million euros) and the amount payable for the government concession tax (7 million euros).

Miscellaneous payables include, among others, the current debt position towards INPS in relation to the application of the 2015 and subsequent agreements signed in 2018, 2019 and 2020, relating to Article 4, paragraphs 1-7ter, of Law 92 of June 28, 2012, as described in the Note "Miscellaneous payables and other non-current liabilities".

Other current liabilities amounted to 848 million euros (944 million euros at December 31, 2019). They break down as follows:

- **Liabilities from customer contracts (Contract liabilities)**, totaling 741 million euros. This item includes liabilities to customers related to the obligations of Group companies to transfer goods and services for which have received a consideration. Liabilities with customers are shown below, which generally have a maturity within 12 months; therefore, the figure at December 31, 2020 will be paid back substantially by December 31, 2021.

In particular:

- **contract liabilities** amounting to 19 million euros; the item includes bundle contracts (good and services packages) with performance obligations with different timing for the recognition of revenues and consequent deferral of the fees originally recognized. The decrease recognized in the year (-38 million euros) was mainly linked to the launch of commercial offers that no longer require a fixed duration and the reversal to the income statement of the balance previously accumulated;
- **customer-related items**, equal to 377 million euros; the item includes trade payables following contractual relationships, such as the payable for prepaid traffic and the subscription fees charged in advance;
- **progress payments and advances** equal to 80 million euros relating to trade payables following prepayments, such as deposits made by subscribers for telephone calls;
- **deferred revenues from customer contracts**, equal to 265 million euros essentially include:
 - Parent Company deferred revenues for rent and maintenance fees (109 million euros);
 - Parent Company deferred revenues for interconnection fees (119 million euros);
 - Parent Company deferred revenues on activation and installation of new contracts with customers (10 million euros).
- **Other deferred revenue and income** amounted to 86 million euros. They mainly refer to deferred revenues from transmission capacity transfer contracts and deferred revenues from real estate leases (lease operating income).

NOTE 26

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 TIM Group companies are involved at December 31, 2020, as well as those that came to an end during the period.

The TIM Group has posted liabilities totaling 511 million euros for those disputes described below where the risk of losing the case has been considered probable.

It should be noted that for some disputes described below, on the basis of the information available at the closing date of the Annual Financial Report and with particular reference to the complexity of the proceedings, their progress, and elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of possible payments, if any. Moreover, in those cases in which disclosure of information on a dispute could seriously jeopardize the position of TIM or its subsidiaries, only the general nature of the dispute is described.

Lastly, as regards proceedings with the Antitrust Authority, please note that based on Article 15, paragraph 1 of Law 287/1990 ("Antitrust regulations"), the Authority has the right to impose an administrative sanction calculated on the turnover of the Group in cases of breaches considered serious.

A) Significant disputes and pending legal actions

International tax and regulatory disputes

At December 31, 2020, companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totaling around 16.6 billion reais (16.2 billion reais at December 31, 2019). The main types of dispute are listed below, classified according to the tax to which they refer.

Federal taxes

On March 22, 2011, TIM Cellular 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 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 Norwest Telecomunicações S.A. and TIM Nordeste S.A. (formerly Maxitel), 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 fiscal effects of the merger of TIM Nordeste Telecomunicações S.A. and Maxitel S.A.;
- non-recognition of the tax-deductibility of the amortization 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 disputes 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 (4.3 billion reais at December 31, 2019).

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 handsets, 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 (at the date of the assessment, including fines and interest). The first assessment (344 million reais) 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) challenged ICMS credits deriving from the "special credit" recognized by the company to its pre-paid 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 (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 pre-paid 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.

Furthermore, in late March 2020, the State of São Paulo issued a further tax assessment to the Company (TIM S.A., as the incorporating company of TIM Celular), for a total amount of 362 million reais (at the date of the assessment, including fines and interest). The notice is based on two alleged infringements: (i) objection regarding ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers, against subsequent top-ups, for the period April- October 2015; and (ii) the discrepancy between the information submitted with periodic reports and figures on taxes paid (discrepancy due to differences in reporting arrangements).

Overall, the risk for these cases, considered to be possible, amounts to 8.6 billion reais (8.2 billion reais at December 31, 2019).

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 (around 0.7 billion reais at December 31, 2019).

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 (3 billion reais at December 31, 2019).



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, of which 159 million reais for tax and 194 million reais for legal revaluations (amounts relating to the then TIM Nordeste).

During 2019, as a result of two final decisions (TIM Celular S.A. and TIM S.A.), the company posted an additional receivable of 3,024 million reais, of which 1,795 million reais for tax and 1,229 million reais for statutory revaluation.

The use of recognized tax receivables started from the end of 2019 and continued in 2020, in compliance with the formal certification procedures established by the Brazilian tax authorities.

Administrative offence charge pursuant to Legislative Decree 231/2001 for the TIM Security Affair

In December 2008 TIM received notification of the application for its committal for trial for the administrative offence specified in articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001 in relation to the affairs that involved several former employees of the Security function and former collaborators of the Company charged - among other things - with offences involving corruption of public officials, with the object of acquiring information from confidential files. In May 2010 TIM definitively ceased to be a defendant in the criminal trial, the Judge for the Preliminary Hearing having approved the motion for settlement of the proceedings (plea bargaining) presented by the Company. In the hearing before Section One of the Milan Court of Assizes, TIM acted in the dual role of civil party and civilly liable party. In fact, on the one hand it was admitted as civil party against all the defendants for all charges, and on the other it was also cited as the party with civil liability pursuant to article 2049 of the Italian Civil Code for the actions of the defendants in relation to 32 civil parties. Telecom Italia Latam and Telecom Italia Audit and Compliance Services (now incorporated into TIM) also participated in the hearing as civil parties, having filed appearances since the Preliminary Hearing and brought charges against the defendants for hacking. After the lengthy evidence hearings, 22 civil parties filed claims for compensation, also against TIM as civilly liable party, for over 60 million euros (over 42 million euros of which requested by a single civil party). The Company itself, as civil party, also summarized its conclusions against the defendants, requesting that they be found liable for all the damages suffered as a result of the facts of the case. In February 2013, Section 1 of the Milan Court of Assizes issued the first instance judgement, sentencing the defendants to terms of imprisonment of between 7 years and 6 months and one year. The Court also recognized that there had been non-pecuniary damage to some of the civil parties as a consequence of the alleged facts, and sentenced the defendants, jointly and severally with civilly liable party TIM, to compensate said damages, totaling 270,000 euros (in part jointly and severally with Pirelli) plus legal fees; at the same time the Court also sentenced the defendants to pay compensation for pecuniary and non-pecuniary damages incurred by the Company, granting it a provisional sum of 10 million euros. The judgement also recognized the existence of non-pecuniary damage to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, sentencing the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company. In November 2013 the grounds for the judgment in the first instance were published (which, for its part, the Company decided not to contest). At the end of the appeal, which was brought by the convicted defendants, the judgement in the first instance was partly reversed. The appeal judge acknowledged that the time-limit had expired on the majority of the charges and made an order not to proceed against the defendants who had been convicted in the lower court, with the exception of two former private investigators, who were found guilty of the offense of revealing information which was subject to a prohibition on disclosure. As for the civil judgements, the Court revoked those made by the judge of first instance and ruled in favor of three ministries, AGCM and the Revenues Agency. The Court also decided to revoke the provisional sum of 10 million euros awarded to the Company as civil party at the end of the proceedings in the court of first instance, making a generic ruling that the defendants should pay compensatory civil damages. Finally, the appeal judge also rejected all the demands for compensation advanced in the appeals by certain civil parties for a total of about 60 million euros, in respect of which the Company has the role of party liable for damages. At the end of the appeal, therefore, the civil rulings settled in the first instance were confirmed which TIM, as the party liable for damages, had already paid to the damaged requesting parties. The three defendants brought an appeal to the Court of Cassation against the judgement of the second instance issued by the Milan Appeal Court of Assizes. In April 2018 the Supreme Court confirmed the convictions of the defendants and canceled the civil rulings, referring the issue generically to the civil court, for a more careful assessment of the claims made, above all concerning the quantum of evidence. It also canceled and referred the confiscation in favor of the State, which will have to be reassessed by a different section of the Milan Crown Court of Appeal under the scope of proceedings not involving the Company.

Golden Power Case

In August 2017 the Prime Minister's office brought proceedings against TIM (as well as Vivendi) in order to verify the fact that TIM has an obligation to notify, pursuant to the Golden Power law, Vivendi's acquisition of corporate control of TIM and the strategic assets it holds. In September 2017, the proceedings in question concluded by affirming that this obligation did exist for TIM with effect from May 4, 2017 (the date of the Shareholders' Meeting that renewed TIM's corporate bodies).

As a result of this decision by the Presidency of the Council of Ministers, new and separate administrative proceedings started for the imposition on TIM of a financial penalty laid down by the Golden Power law for non-compliance with the aforementioned obligation to notify. These proceedings ended on May 8, 2018 with the imposition of a financial penalty of 74.3 million euros.

The Company, is convinced that it has the legal arguments to demonstrate that it was under no obligation to notify the control exercised over it by Vivendi, filed separate extraordinary appeals to the President of the Republic to request the abrogation of the order of September 2017 and before the Lazio Regional Administrative Court (TAR) against the aforementioned order of May 8, 2018, which imposed a financial penalty, requesting its precautionary suspension. In relation to the appeal to the Lazio TAR against the aforementioned provision of May 8, 2018, which imposed the financial penalty, the Court, after granting, in July 2018, the application of the Company and thereby suspending payment of the fine, subsequently rejected, with the provisional ruling of May 2019, the exception of inadmissibility of the appeal on the sanction of 74.3 million euros; suspended the ruling preliminarily with respect to the extraordinary appeal concerning the obligation of notification pursuant to the Golden Power rules, and further suspended the execution of the challenged measure.

It should also be noted that in May 2018 a guarantee bond for 74.3 million euros was issued in favor of the Presidency of the Council, requested for the submission by TIM before the Lazio TAR of the request for a precautionary suspension of the collection of the fine imposed for alleged breach of Article 2 of Decree Law no. 21 of March 15, 2012 (the "Golden Power" law).

Furthermore, TIM appealed before the Lazio TAR and then appealed before the Council of State against the provision with which Consob, on September 13, 2017, affirmed Vivendi's control over TIM. In December 2020, the Council of State issued a final judgment upholding TIM's appeal and canceling the provision by Consob, a significant premise to the entire subsequent proceedings of the Presidency of the Council in relation to the obligation to Golden Power notification as described above.

On the other hand, the President of the Council of Ministers exercised the special powers prescribed in the Golden Power law through two specific measures in October and November 2017, with which it imposed specific prescriptions and conditions on TIM S.p.A. and on the companies of the Telecom Italia Sparkle group and Telsy Elettronica e Telecomunicazioni (now Telsy S.p.A.).

The prescriptions, according to the Administrative Authority, are essentially connected to the circumstance that these companies, in part, perform activities that are relevant for national security and as far as TIM is concerned to the circumstance that it also owns the infrastructure and the systems used to provide access to end-users of services covered by the universal service obligation.

Any failure on the part of the recipients of the measures to execute said conditions and prescriptions is penalized in the same way as failure to notify significant deeds for the purpose of the application of the so-called Golden Power.

The companies subject to the prescriptions are required to send periodic reports to a special Monitoring Committee established at the office of the Prime Minister in order to verify compliance with the aforementioned prescriptions.

In December 2017 the Group sent to the Presidency of the Council of Ministers the first compliance report outlining all the proposals and activities put in place to carry out the prescriptions. This report is then followed by interim reports, as required by the applicable legislation.

Nevertheless, also for this case TIM has already filed two extraordinary appeals to the President of the Republic to request the cancellation (i) of the imposition of the measures pursuant to Art. 1 of Law Decree no. 21/2012 and (ii) the imposition of measures pursuant to Art. 1 of Law Decree no. 21/2012.

As stated, the assumption for exercising special powers was (erroneously, according to the Company) referred to the *de facto* control resulting from the outcome of the Shareholders' Meeting of May 4, 2017 and to the direction and coordination of TIM by Vivendi. Both these circumstances no longer apply, since: at the Shareholders' Meeting of May 4, 2018, the slate presented by the shareholders Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership received the majority vote; the Board of Directors was re-appointed with 13 independent directors out of a total of 15, with only 5 from the slate presented by Vivendi; thus, Vivendi no longer has direction and coordination, nor is there *de facto* control.

In consequence, the Company has asked the Presidency of the Council of Ministers to repeal the two Decrees, while, in the alternative, expressing its willingness to collaborate in the redrafting of the prescriptions applied to TIM, to take account of the changed situation.

The Presidency of the Council of Ministers, in a decree issued on July 6, 2018, deemed that it could not further exercise its special powers, reaffirming the validity of the two Decrees it had previously issued, and rejected the application for their repeal.

The justification for this refusal is the purported circumstance that the new governance arrangements of the Company are alleged to be currently characterized by extreme variability; this, it is argued, means that the measures through which the special powers have been exercised cannot be surmounted, given the need to protect the public interest in the security and operation of the networks.

Consequently, the Company lodged an appeal with additional reasons as part of the appeals already lodged against the Prime Minister's decrees of October 16 and November 2, 2017 and against the Prime Minister's resolution of July 6, 2018, rejecting the appeal for revocation presented by the Company on the outcome of the changed situation in corporate governance. With a non-final ruling published in May 2019, the Lazio TAR: (i) accepted TIM's request for provisional measures to suspend the fine conditional on the offer of the guarantee; (ii) granted the suspension of the procedure in order to wait for the final judgment in the (injurious) case pending before the President of the Republic regarding the notification obligation, pursuant to the Golden Power provisions; (iii) rejected the request to close the case.

Italian Competition Authority Case A428

At the conclusion of case A428, in May 2013, Italian Competition Authority AGCM imposed two administrative sanctions of 88,182,000 euros and 15,612,000 euros on TIM for abuse of its dominant position. The Company allegedly (i) hindered or delayed activation of access services requested by OLOs through unjustified and spurious refusals; (ii) offered its access services to final customers at economic and technical conditions that allegedly could not be matched by competitors purchasing wholesale access services from TIM itself, only in those geographic areas of the Country where disaggregated access services to the local network are available, and hence where other operators can compete more effectively with the Company.

TIM appealed against the decision before the Regional Administrative Court (TAR) for Lazio, applying for payment of the fine to be suspended. In particular, it alleged: infringement of its rights to defend itself in the proceedings, the circumstance that the organizational choices challenged by AGCM and allegedly at the base of the abuse of the OLO provisioning processes had been the subject of specific rulings made by the industry regulator (AGCom), the circumstance that the comparative examination of the internal/external provisioning processes had in fact shown better results for the OLOs than for the TIM retail department (hence the lack of any form of inequality of treatment and/or opportunistic behavior by TIM), and (regarding the second abuse) the fact that the conduct was structurally unsuitable to reduce the margins of the OLOs.

In May 2014, the judgement of the Lazio TAR was published, rejecting TIM's appeal and confirming the fines imposed in the original order challenged. In September 2014 the Company appealed against this decision.

In May 2015, with the judgement no. 2497/15, the Council of State found the decision of the court of first instance did not present the deficiencies alleged by TIM and confirmed the AGCM ruling. The company had already proceeded to pay the fines and the accrued interest.

In a decision notified in July 2015, AGCM started proceedings for non-compliance against TIM, to ascertain if the Company had respected the notice to comply requiring it to refrain from undertaking behaviors analogous to those that were the object of the breach ascertained with the concluding decision in case A428 dated May 2013.

On January 13, 2017, TIM was served notice of AGCM's final assessment, which recognized that TIM had complied in full with the A428 decision and, as such, the conditions for the imposition of a fine for non-compliance were not present.

AGCM recognizes, furthermore, that TIM's behavior subsequently to the 2013 proceedings has been directed towards continuous improvement of its performance in the supply of wholesale access services concerning not only the services which were the subject of the investigation, but also the new super-fast broadband access services. In assessing compliance, AGCM recognized the positive impact of the implementation, albeit not yet completed, of TIM's New Equivalence Model (NME). The AGCM decision orders TIM to: (i) proceed with the implementation of the NME until its completion which is expected to be by April 30, 2017; (ii) to inform the Authority about the performance levels of the systems for providing wholesale access services and about the completion of the corresponding internal reorganization plan by the end of May 2017. The Company quickly complied with both orders, and AGCOM communicated its satisfaction on August 9, 2017.

Vodafone lodged an appeal with the Lazio Regional Administrative Court against the final decision in the proceedings for non-compliance taken by AGCM. TIM filed an appearance, as in the other lawsuits filed in March 2017 by the operators CloudItalia, KPNQWest Italia and Digtel.

Vodafone (A428)

In August 2013, Vodafone, as incorporating company of operator Teletu, submitted to the Milan Court a huge claim for damages for presumed abusive and anticompetitive behavior (founded principally on ICA case A428) which TIM allegedly implemented in the period 2008 - 2013. The pecuniary claim was quantified by Vodafone as an estimated sum of between 876 million euros and 1,029 million euros.

In particular, Vodafone alleged technical boycotting activities, with refusal to activate lines requested for Teletu customers (in the period from 2008 to the month of June 2013), together with the adoption of allegedly abusive price policies for wholesale network access services (period from 2008 to the month of June 2013). Furthermore, the other party complained of the presumed application of discounts to business customers greater than those envisaged ("margin squeezing") and the carrying out of presumed illegal and anticompetitive winback practices (in the period from the second half of 2012 to the month of June 2013).

TIM filed an appearance, challenging the claims made by the other party regarding the merits and the amount and making a counterclaim. Following the August 2016 decision by the Court of Cassation which confirmed that the Milan Court had jurisdiction to decide the dispute, the merits of the case will be decided at the hearing in December 2016.

With writ of summons before the Milan Court served in May 28, 2015, Vodafone filed additional damages claims, all based on the same AGCM A428 decision and referring to alleged damages suffered between July 2013 and December 2014 (and hence over a period subsequent to that of the damages claim reported above), for a total amount of around 568.5 million euros.

The case also contains a reservation of further damages to be quantified, during the proceedings, for the following periods, the claimant alleging that the presumed abusive conduct of TIM continued. TIM filed an appearance, challenging the claims made by the other party regarding the merits and the amount and making a counterclaim.

By order of October 6, 2016, the judge received Vodafone's application for the two A428 lawsuits brought by it to be joined. At the end of the reinstatement proceedings of 21 December, the terms were established for the preliminary briefs and a hearing was fixed for July 11, 2017 for the admission of evidence. When the first preliminary brief was filed, following the favorable outcome for TIM of proceedings A428-C (which confirmed the absence of improper conduct by the Company under A428 after 2011), Vodafone decided nonetheless to file further claims for 2015-2016, thus restating its total claim to be 1,812 million euros, which was also disputed and rebutted by TIM.

Colt Technology Services

With writ of summons before the Milan Court served in August 2015, the operator Colt Technology Services filed a damages claim based on the A428 decision, requesting compensation for alleged damages suffered from 2009 to 2011 as a result of purportedly inefficient and discriminatory conduct by TIM in the wholesale service supply process. The damage claimed was quantified as 27 million euros in loss of profits for the alleged non-acquisition of new customers, or for the alleged impossibility of supplying new services to the customers it had already acquired; the other party also formulated a request for compensation for the damages to its image and commercial reputation. This case follows the extrajudicial claim for approximately 23 million euros, previously advanced by Colt in June 2015, which the Company rejected in its entirety. TIM filed an appearance, contesting all of the plaintiff's allegations.

COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.)

With writ of summons before the Rome Court, COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.) filed a damages claim for a total of 37 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009-2011, in the form of technical boycotting (refusals to activate wholesale services - KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations. In the judgment with ruling in April 2019, the Court of Rome partially received the petitions of COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.), sentencing TIM to pay an amount significantly lower than the amount in the counterparty's damages claim. In June 2019, TIM filed an appeal against the ruling, requesting full rejection of the claims presented by COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.) in the ruling of first instance and, in July, obtained the suspension of payment of a significant portion of the amount defined in the ruling.

Teleunit

With a writ of summons before the Rome Court, Teleunit has claimed 35.4 million euros in compensation from TIM, based on the known decision of the Italian Competition Authority that settled the A428 case. Specifically,

the other party complained that in the period 2009/2010 it had suffered abusive conduct on TIM's part in the form of technical boycotting (refusals to activate network access services – KOs), and anticompetitive practices in the form of margin squeezing (excessive squeezing of discount margins, considered abusive inasmuch as they cannot be replicated by competitors). TIM filed an appearance, contesting all of the plaintiff's allegations. In October 2020, the dispute was settled by the parties at no extra cost to the company on the income statement.

With a writ of summons issued in October 2009 before the Milan Appeal Court, Teleunit asked that TIM's alleged acts of abuse of its dominant position in the premium services market be ascertained. The plaintiff quantified its damages at a total of approximately 362 million euros. TIM filed an appearance, contesting the claims of the other party.

After the ruling of January 2014 with which the Court of Appeal declared that it was not competent in this matter and referred the case to the Court, Teleunit reinstated the case before the Milan Court the following April. TIM filed an appearance in the reinstated proceedings challenging the plaintiff's claims.

In its judgement of May 2017, the Milan Court rejected Teleunit's claim in its entirety, and ordered the company to pay the legal costs of the case. This judgement was appealed by Teleunit, in June 2017, before the Milan Court of Appeal. TIM filed an appeal challenging the arguments presented by the other party and asking that the judgement in the first instance be fully confirmed. With an order in March 2018 the Milan Court of Appeal declared Teleunit's appeal pursuant to art. 348-bis of the Italian Code of Civil Procedure to be manifestly without foundation, and hence inadmissible. In May 2018 Teleunit appealed the judgement of the Court of Appeal to the Court of Cassation. TIM lodged a counter-appeal seeking confirmation in full of the order being appealed (and thus of the judgment at first instance).

Siportal

Siportal has filed a lawsuit against TIM with the Court of Rome, by which Siportal has sued for approximately 48.4 million euros of compensation for alleged damages from abusive conduct in the form of technical boycotting over the period 2009–2011 and from the knock-on effects of the abuse until 2015, with the loss of commercial partners and the non-acquisition of new customers (the latter quantified for 25 million euros of damages). The claims are based on the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations. The Court of Rome decided in favor of Siportal on the an of the alleged plaintiff; the case will continue with the Court Appointed Expert. TIM reserves every right to protect its own interests. In October 2020, the dispute was settled by the parties at no extra cost to the company on the income statement.

MC-Link

With writ of summons before the Rome Court, MC-Link filed a damages claim for a total of 51 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009–2012, in the form of technical boycotting (refusals to activate wholesale services – KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations.

Eutelia and Clouditalia Telecomunicazioni

With a writ of summons dated May 2020, Eutelia in Extraordinary Administration and Clouditalia Telecomunicazioni S.p.A., purchaser of Eutelia's TLC branch, brought an action against TIM before the Court of Rome, making claims for damages, of around 40 million euros, for damages allegedly suffered, in the period 2009–2012, following the technical boycott and margin squeeze conduct, subject of the AGCM A428 procedure. TIM filed an appearance contesting the claims of the other party and formulating a counterclaim reserving the right to quantify the damages suffered in the course of the proceedings.

Antitrust Case I761

With a ruling issued on July 10, 2013, AGCM (the Italian Competition Authority) extended to TIM the investigation started in March of the same year into some firms active in the fixed network maintenance sector. The investigation aims to establish if an agreement exists that is prohibited under article 101 of the Treaty on the Functioning of the European Union. The proceedings were initiated after Wind filed two complaints in which the ICA was informed that, based on an invitation to bid for the assignment of network corrective maintenance services, it had encountered substantial uniformity of prices offered by the aforementioned enterprises and a significant difference from the offers submitted subsequently by other and different companies.

The ICA alleged that TIM carried out a role of coordinating the other parts of the procedure, both during the formulation of the offers requested by Wind and in relation to the positions represented to communications regulator AGCom.

TIM challenged these proceedings before the Administrative Court (TAR), sustaining that the ICA does not have competence in this matter.

On July 7, 2014, the ICA notified the objective extension of the proceedings to check if the Company, abusing its dominant position, put in place initiatives that might influence the conditions of the offer of accessory technical services when the offers of the maintenance businesses to Wind and Fastweb were being formulated. With the extension provision, the ICA has also extended the deadline for closing the proceedings from the original date of July 31, 2014 to July 31, 2015. This extension was also challenged before the Lazio Administrative Court (TAR) sustaining that the Italian Competition Authority does not have competence in this matter.

In November 2014, for reasons of procedural economy and also convinced that it was acting legitimately, TIM presented to the Authority a proposal of undertakings in order to resolve the competition concerns subject of the investigation. In its resolution of December 19, 2014, the ICA considered that these undertakings were not manifestly groundless and later ordered their publication for the purposes of market testing.

On March 25, 2015, the ICA definitively rejected the aforesaid undertakings, considering them not suitable for removing the anticompetitive aspects investigated.

On July 21, 2015 the Communication of the Results of the Investigation was served on the parties to the proceedings, in which the Offices of ICA expressed their position in the sense of (i) archiving the complaints regarding the abuse of dominant position and (ii) confirming, instead, that there exists between TIM and the maintenance firms an agreement to coordinate the economic offers drawn up for Wind and Fastweb, and to prevent the unbundled supply of the ancillary technical services.

On December 16, 2015, the final order was issued, confirming the conclusions of the Communication of the Results of the Investigation, sustaining that, between 2012 and 2013, there existed an agreement that restricted competition, and as a result imposed a fine of 21.5 million euros on the Company, paid in March 2016. The relevant market is the corrective maintenance (assurance) market and, more precisely, the market for troubleshooting the TIM LLU lines. The purpose of the conduct maintained by the Company and the network firms would have been to limit competition and prevent the evolution of forms of unbundled supply of ancillary technical services.

TIM appealed the order before the Lazio Regional Administrative Court. In judgement no. 09554/2016 issued in September 2016, the appeal was dismissed, and the Company appealed this decision to the Council of State. On the outcome of the proceedings, with the ruling of December 2019, the Council of State, deciding in favor of TIM, annulled the AGCM I761 provision and referred the task of conducting a new investigation to AGCM, within the limits that decided by the Council of State itself. In 2020, TIM obtained the return of amounts paid by way of sanction.

Wind (I761)

With writ of summons before the Milan Court, Wind filed a damages claim against TIM for approximately 57 million euros, recently increased during the case to approximately 58 million euros, in compensation for damages arising from alleged anticompetitive conduct which AGCM had fined in the I-761 case (concerning corrective maintenance). According to the plaintiff, this conduct delayed and hindered its ability to obtain more favorable conditions in the unbundled purchase of service to repair faults on the LLU access lines, and their effects, initially stated to have been lasted until December 2015 and subsequently alleged by Wind to be ongoing. TIM has filed an appearance challenging the claims made by the other party. In December 2020, the case was settled as part of a global settlement with Wind Tre.

Vodafone (I761)

With a writ of summons before the Milan Court, Vodafone has sued TIM and some network companies, bringing claims for compensation from the Company for around 193 million euros for damages arising from alleged anti-competitive conduct censured in the known ICA case I-761 (on corrective maintenance) referring to the period from 2011 to 2017.

Vodafone contests the alleged breach of the competition rules carried out by TIM, in the wholesale markets giving access to its fixed network (LLU lines; Bitstream; WLR), through the abuse of a dominant market position and an unlawful agreement with the maintenance companies to maintain the monopoly on the offer of corrective maintenance services on its network. Specifically, the restrictive agreement allegedly concerned the coordination, by the Company, of the economic terms and conditions contained in the bids for maintenance services prepared by the aforementioned companies for OAOs, with artificially high prices with respect to the cost of the maintenance included in the regulated access fee, with a view to discouraging the disaggregation of the service itself. The Company filed an appearance, contesting all of the other party's requests.

Italian Competition Authority Case A514

In June 2017 the Italian Competition Authority (AGCM) started proceedings A514 against TIM, to ascertain a possible abuse of its dominant market position in breach of article 102 of the "Treaty on the Functioning of the European Union". The proceedings were started based on some complaints filed in May and June 2017, by Infratel, Enel, Open Fiber, Vodafone and Wind Tre, and concerns a presumed abuse of TIM's dominant position in the market for wholesale access services and for retail services using the broadband and ultra-broadband fixed network. In particular, the ICA hypothesized that TIM had adopted conduct aimed at: i) slowing and

hindering the course of the Infratel tender processes so as to delay, or render less remunerative the entry of another operator in the wholesale market; ii) pre-emptively securing customers on the retail market for ultrabroadband services by means of commercial policies designed to restrict the space of customer contendability remaining for the competitor operators.

After the start of the proceedings, the Authority's officials carried out an inspection at some of TIM's offices in the month of July 2017. On November 2, 2017, TIM filed a defense brief in which, in support of the correctness of its actions, it challenged all the arguments that the conduct it had allegedly engaged in, and which was the subject of the case, was unlawful.

On February 14, 2018, AGCM resolved to extend the scope of the case to investigate further behavior concerning TIM's wholesale pricing strategy on the market for wholesale access to broadband and ultrabroadband, and the use of the confidential information of customers of the alternative operators.

On July 5, 2018 TIM filed proposed undertakings which, if accepted by the Authority, would close the investigation without any offense being established or sanction being administered. The undertakings were considered as admissible by the Authority, that market tested them in August and September.

On October 30, 2018, TIM replied to observations made by third parties and modified its proposed undertakings. With its decision notified on December 4, 2018, the Italian Antitrust Authority once and for all rejected the proposed series of undertakings as it considered them unsuitable in light of the objections raised.

On March 4, 2019, TIM requested AGCM for an extension of the deadline for closing the proceedings (initially set for May 31, 2019).

On April 10, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until September 30, 2019. On May 17, 2019, AGCM notified TIM of the results of the investigation (CRI). In the CRI, AGCM essentially confirmed the case for the prosecution outlined in the start-up and extension of the proceedings orders.

On June 12, 2019 AGCM extended the deadline for deposit of TIM's final defense to September 20, 2019 and set the final hearing for September 25, 2019.

On September 18, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until February 28, 2020.

On March 6, 2020, TIM was notified of the decision to close the investigation: AGCM ruled that TIM had abused its dominant position, finding that TIM had put in place an anti-competitive strategy designed to hinder the competitive development of investment in UltraBroadBand network infrastructure.

The fine imposed on TIM for the anti-competitive offense is 116,099,937.60 euros. TIM appealed the aforementioned fine before the Lazio TAR, contesting both the merits of the accusations and the amount of the imposed fine.

On June 25, 2020 TIM sent the so-called compliance report as ordered in the final provision. The Lazio TAR has scheduled a hearing for oral discussion for November 3, 2021.

Open Fiber

In March 2020, Open Fiber (OF) sued TIM before the Court of Milan, claiming damages of 1.5 billion euros for alleged abuse of an exclusive and dominant position in relation to OF. The alleged actions consist of: (i) pre-emptive investments in FTTC networks in white areas; (ii) initiating specious legal action to obstruct Infratel tenders; (iii) spurious repricing of certain wholesale services; (iv) commercial lock-in offers on the retail market; (v) false disclosure to AGCom in connection with the approval of a wholesale offer and spreading rumors about TIM being interested in acquiring OF; (vi) discriminatory access conditions to TIM passive infrastructure. TIM filed an appearance, contesting the arguments of. Enel S.p.A. intervened in the proceedings, asking that TIM be ordered to compensate all damages suffered and being suffered by Enel and OF.

TIM challenged the A514 fine measure before the Lazio TAR, which was widely referred to by the counterparty in the writ of summons.

Vodafone

In January 2021, Vodafone Italia S.p.A. summonsed TIM to the Court of Milan, making a claim for damages of approximately 100 million euros for damages allegedly suffered as a consequence of the unlawful conduct of TIM, as sanctioned by the AGCM, with the provision that concluded case A514.

The conduct of TIM sanctioned by the Authority allegedly resulted in a slowing of the penetration of UBB infrastructures on the market of white areas and, consequently, the delayed or failed acquisition of new customers by Vodafone, as well as a hindrance to acquiring additional customers as a result of the alleged binding practices over the whole of national territory. TIM will file an appearance with a series of solid legal arguments for its own protection.

Fastweb

In February 2021, Fastweb S.p.A. summonsed TIM to the Court of Milan, making a claim for damages of approximately 996 mln euros for damages allegedly suffered as a consequence of the unlawful conduct of TIM, as sanctioned by the AGCM, with the provision that concluded case A514, as well as allegedly opportunistic suspensions of activation orders sent by Fastweb.

Fastweb complains that TIM allegedly delayed the wholesale offer of ultrabroadband services by Open Fiber in the white areas, consequently slowing the offer of said services by Fastweb to its end customers in these areas; binding practices were implemented in relations with the end customer, hindering access to the market by alternative operators (including Fastweb). In addition, TIM allegedly instrumentally managed the supply process of wholesale access services to its fixed broadband and ultrabroadband network, opportunistically suspending the activation orders submitted by Fastweb and thereby hindering its activation of new customers. TIM will file an appearance laying out solid arguments refuting Fastweb's claims.

Antitrust Case I799

At its meeting on February 1, 2017, AGCM initiated an investigation for possible breach of Article 101 of the TFEU (prohibition of agreements that restrict competition) against TIM S.p.A. and Fastweb S.p.A., following the signing of an agreement aimed at setting up a cooperative joint venture called Flash Fiber S.r.l.. TIM, in agreement with Fastweb, submitted some amendments to the agreements signed, in the form of proposed undertakings, aimed at closing the investigation without any breach being ascertained and, therefore, without any fine.

On March 28, 2018, AGCM resolved to approve the undertakings, making them binding on the Parties, and closed the case without imposing any fine.

On January 30, 2019, TIM sent the planned annual report on the provided coverage to AGCM, supplemented by a subsequent communication dated March 29, 2019. TIM transmitted further details to AGCM in July and AGCM acknowledged it on October 15, 2019. On January 31, 2020 TIM sent AGCM the third report on the implementation of the commitments made.

On June 11, 2018 Open Fiber S.p.A. and Wind Tre S.p.A. filed separate appeals to the Lazio Regional Administrative Court (TAR) against the order closing case I799 with the acceptance of the undertakings. They allege that this order has a series of procedural and substantial defects.

Open Fiber S.p.A. also asked for the precautionary suspension of the order.

In a ruling of March 2020, the Regional Administrative Court rejected in full the appeal by Open Fiber S.p.A.. A hearing on the merits has not yet been scheduled for Wind Tre's appeal.

Vodafone

In June 2015 Vodafone issued proceedings for damages in the Milan Court for alleged abuse of a dominant position by TIM in the bitstream "NGA" and "VULA" fiber access services market, initially claiming around 4.4 million euros, increased to a figure ranging from 30 to 48.9 million euros.

The plaintiff complained that TIM allegedly had engaged in abusive conduct by way of aggressive price offers to win customers and by hindering Vodafone's access to the fiber network to make it more difficult for the party to provide ultra-broadband services to its customers.

TIM has filed an appearance, challenging the claims of the plaintiff in full and, subsequently, the revised estimate of damages made in 2016 during the case.

Eutelia and Voiceplus

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by TIM of its dominant position in the premium services market (based on the public offer of services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.

The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviors of the Company relating to the management of some financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers, for which TIM managed the payments from the end customers, on behalf of such OLOs and in the light of regulatory requirements. After the ruling with which the Milan Court of Appeal accepted TIM's objections, declaring that it was not competent in this matter and referring the case to the Civil Court, Eutelia in extraordinary administration and Voiceplus in liquidation resubmitted the matter to the Milan Court. The first

hearing took place in the month of March 2014. TIM filed an appearance challenging the claims of the other parties. After the collapse of Voiceplus, the Milan Court declared the case suspended, in an order in September 2015. The case was later resumed by Voiceplus.

With a judgment issued in February 2018, the Milan Court accepted TIM's defense and rejected the plaintiffs' claim for compensation, ordering them, jointly and severally, to pay the legal costs. In March 2018 Eutelia and Voiceplus proposed an appeal against the judgement in the first instance.

TIM appealed against the claim, requesting confirmation in full of the judgment in the first instance. The appeal of Eutelia and Voiceplus was fully rejected with the judgment of August 5, 2019. In December 2019 Eutelia and Voiceplus appealed to the Court of Cassation over the judgment of the Court of Appeal. TIM notified a counterclaim asking confirmation of the ruling appealed against.

28 day billing

Resolution 121/17/CONS introduced instructions on billing intervals for telephony, prescribing, for fixed telephony, that the interval should be monthly, or multiples thereof, and, for mobile telephony, that it should be at least four-weekly. TIM appealed Resolution 121/17/CONS to the Regional Administrative Court. The judgment rejecting the appeal was published in February 2018. TIM appealed this judgment to the Council of State in June 2018. On September 23, 2020, the non-definitive ruling was published whereby the Council of State joined the appeals submitted by TIM, Vodafone, Fastweb and Wind Tre and ordered the prejudicial deferral to the European Union Court of Justice (EUCJ) on whether or not the Authority had the power to regulate the frequency of renewal of the commercial offers and invoicing periods, at the same time rejecting the other grounds of appeal submitted by the operators and suspending proceedings. In February 2021, TIM filed its written observations on the requests for prejudicial judgment with the EUCJ.

With its Resolution 499/17/CONS, having confirmed the breach of Resolution 121/17/CONS, AGCom fined TIM 1,160,000 euros, ordering it to make provision – when the billing cycle was restored to monthly intervals or multiples thereof – to return the amounts corresponding to the fee for the number of days that, from June 23, 2017, had not been used by the users in terms of the supply of service due to the misalignment of the four-weekly and monthly billing cycles. TIM also appealed this second resolution to the Regional Administrative Court of Lazio, asking for its precautionary suspension which, on February 22, 2018, was accepted by the Regional Administrative Court of Lazio limited to the part relating to the reimbursement orders.

Subsequently, Law no 172 of December 4, 2017 decreed that contracts for the supply of electronic communications services should obligatorily prescribe that the renewal of offers and the billing of services be based on a month, or multiples thereof. TIM adapted to this order within the period of time prescribed by law, namely within 120 days of the date it came into force (April 5, 2018).

In March 2018, with Decision 112/2018/CONS AGCom (i) cautioned TIM, with regard to fixed-line voice services only, against postponing the starting date of invoices issued after the return to monthly invoicing by the same number of days as those presumably deducted starting from June 23, 2017 with the four-weekly invoicing cycle; and (ii) revoked the preceding resolution 499/17/CONS in the part in which TIM was ordered to repay the amounts presumably lost from June 23, 2017 onwards, with the four-weekly billing cycle. This resolution was also challenged by with an additional submission triggered as part of the appeal against resolution 499/17/CONS, with a request for single precautionary measures, which was provisionally granted until the hearing before the Council on April 11, 2018 with a Presidential Decree published on March 26, 2017.

Under Presidential Decree 9/18/PRES, AGCom amended the provisions of Decision 112/18/CONS requiring the deferment of billing once the billing cycle was restored to monthly intervals, or multiples thereof, while also ordering that the timescales for complying with the order would be identified after hearings with the operators and the main consumer protection associations. TIM and the other operators affected by the presidential decree waived the precautionary petition against Resolution 112/18/CONS. In May 2018, TIM therefore appealed AGCom Presidential Decree 9/18/PRES and Resolution 187/18/CONS which ratified this decree.

In July 2018, AGCom issued resolution 269/18/CONS, with which it set December 31, 2018 as the date by which the operators must return to their fixed network customers a number of days of service equal to those eroded as an effect of 28-day billing, or propose to the affected customers any alternative compensatory measures, after having notified them to AGCom. TIM, in keeping with actions taken and arguments made, intends to appeal this resolution.

In September 2018, TIM appealed Resolution 297/18/CONS in which AGCom imposed a fine of 696,000 euros for having continued to adopt – in violation of AGCom resolution 121/17/CONS – four-weekly billing and renewal of consumer offers as from February 16, 2018 (and until March 31, 2018).

With the judgment published in November 2018, the TAR canceled the pecuniary administrative sanction of 1.16 million euros imposed with Resolution 499/17/CONS, and confirmed the obligation of restitutio in integrum to the fixed-line customers by December 31, 2018. TIM submitted its preventive appeal before the Council of State to interrupt execution of said decision and, with its ruling of December 20, 2018, the Council of State, in upholding TIM's appeal, interrupted the effectiveness of the aforesaid decision for the reversal order only, until March 31, 2019.

In November, 2018, AGCom published resolution 521/18/CONS with which it imposed a sanction of 1,044,000 euros on TIM. The sanction was imposed for breach of the transparency rules and rights to withdraw in amending the contractual terms and conditions of the mobile offers applied to customers starting from April 8, 2018 following restoration of monthly billing. TIM appealed this resolution as well to the Regional Administrative Court in January 2019. Following a new application submitted by TIM, the Council of State, with its ruling published on March 20, 2019, extended the precautionary measure to suspend the effectiveness of the decision until May 21, 2019 while awaiting publication of the grounds for the judgment.

Having acknowledged the publication of the grounds of the ruling handed down on May 10, 2019, the Council on May 21, 2019 ordered postponement of discussion of the application for precautionary measures to the Council meeting of July 4, 2019 in order to allow TIM to finalize its additional grounds with a new application for precautionary measures. Following this hearing, the Council of State rejected TIM's application to suspend execution of the ruling of the Regional Administrative Court with its ruling published on July 5, 2019, so it is operational starting from May 21, 2019. The hearing to discuss the introductory appeal and additional grounds submitted by TIM in the meantime is still, as of writing, to be set. On July 12, 2019 the ruling mechanisms with which the Council of State rejected the similar appeals made by Vodafone, Wind Tre and Fastweb were published and in February 2020 the judgments containing the grounds were published.

In September 2019, TIM also challenged resolution 221/19/CONS, before the Regional Administrative Court (TAR), with which the sanction pursuant to Resolution 499/17/CONS, canceled by the Regional Administrative Court of Lazio, was recalculated to the amount of 580,000.00 euros, with the maximum fine provided for by Art. 98, paragraph 16 of the CCE in force at the time of the events applied.

In August 2019, AGCom initiated new proceedings (CONT 12/19/DTC) for failure to comply with the order to refund the days eroded by billing every 28 days for fixed network and convergent customers, according to the procedures established with resolutions nos. 112/18/CONS and 269/18/CONS. On conclusion of these proceedings, by means of Resolution 75/20/CONS, the Authority found that TIM did not comply with the above resolutions, imposing a fine of 3 million euros. The measure was challenged by TIM before the TAR in July 2020.

In June 2019, TIM had in any case decided to offer its fixed network customers, active prior to the March 31, 2018 and subjected to billing every 28 days, the possibility of accepting a compensatory solution, an alternative to refunding the eroded days pursuant to AGCom resolution no. 269/18/CONS. Subsequently, from September 2019, TIM decided to also accept requests for the refund of the eroded days. In both cases, TIM informed customers with several messages in the bill, on the web in the main newspapers. The initiatives just described were communicated to AGCom as part of the aforementioned penalty proceedings.

Antitrust Case I820

On February 19, 2018, AGCM initiated a I820 preliminary proceeding against the companies TIM, Vodafone, Fastweb and Wind Tre and the industry association ASSTEL to investigate the alleged existence of an agreement among the major fixed-line and mobile telephone operators to restrict competition by coordinating their respective commercial strategies, in breach of Article 101 of the TFEU.

The presumed coordination, according to the opening provision of the proceedings by AGCM, would take the form of implementation of the obligation introduced by Article 19-quinquiesdecies of Legislative Decree 148/2017 (converted by Law 172/2017) which requires operators of electronic communication services to send out monthly (or monthly multiples) bills and renewed offers for fixed and mobile services.

On March 21, 2018, AGCM issued a provisional precautionary measure against all the operators involved in the proceedings with which it ordered the suspension, pending the proceedings, of the implementation of the agreement concerning the determination of repricing communicated to users at the time of reformulating the billing cycle in compliance with Law 172/17 and to independently redetermine its commercial strategy. With its decision no. 27112 of April 11, 2018, AGCM confirmed the precautionary measure.

On June 12, 2018, TIM filed an appeal with the TAR for the quashing of said measure.

In its session on June 27, 2018, AGCM took note of the brief submitted by TIM regarding compliance with the precautionary measure.

On July 17, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until January 31, 2020. In the findings of the preliminary inquiry (CRI) communicated by AGCM to TIM, the Offices confirm the existence of a unique, complex and continuous agreement restricting competition between Telecom, Vodafone, Fastweb and Wind Tre, with the facilitation of the Asstel category association.

On October 31, TIM filed its final brief, and the final hearing was held on October 15 at AGCM.

On January 31, 2020, TIM was notified of the decision to close the investigation, in which AGCM confirmed the existence of the agreement between Telecom, Vodafone, Fastweb and WindTre, but excluding Asstel from participation in the agreement. The fine imposed on TIM for participation in the anti-competitive agreement was 114,398,325 euros. In April 2020, TIM also challenged the sanction order and following the motion, the public hearing was scheduled for May 26, 2021.

Antitrust Case I850

By decision given on December 15, 2020, the Italian Competition Authority (AGCM) started an investigation in regard to the company Telecom Italia S.p.A., Fastweb S.p.A., Teemo Bidco S.r.l., FiberCop S.p.A., Tiscali Italia S.p.A. and KKR & Co. Inc., to ascertain the existence of any breaches of article 101 of the TFEU.

More specifically, the investigation regards the contracts governing the establishment and operation of FiberCop and the supply agreements with Fastweb and Tiscali.

AGCM intends to verify that such agreements do not hinder competition between operators in the medium and long-term and assure the rapid modernization of the country's fixed telecommunications infrastructures.

The case should be concluded by December 31, 2021.

Vodafone Dispute – Universal Service

In a decision published in July 2015, the Council of State rejected the appeal lodged by AGCom and TIM against the judgment of the Lazio Administrative Court (TAR) on the financing of the universal service obligations for the period 1999–2003. With this judgement the judge had granted the appeals by Vodafone, annulling AGCom decisions 106, 107, 109/11/CONS on the renewal of the related proceedings, which included Vodafone among the subjects required to contribute, for a sum of approximately 38 million euros. Essentially, the judgement confirms that the Authority has not demonstrated the particular degree of "replaceability" between fixed and mobile telephony for mobile operators to be included among the subjects required to repay the cost of the universal service, which means that AGCom needs to issue a new ruling.

TIM has filed an application with AGCom to renew the proceedings, and an appeal against the judgement of the Court of Appeal to the Court of Cassation (which subsequently ruled that the appeal was inadmissible).

In April 2016 Vodafone appealed against the Ministry of Economic Development (MISE) and TIM to the Council of State, for non-compliance with the judgement of the Council of State. This appeal referred to AGCom decision 109/11/CONS (2003 yearly payment, on the basis of which Vodafone had paid the sum of approximately 9 million euros as contribution, restitution of which was requested).

In its judgment of November 2016, the Council of State rejected the appeal, referring to the Regional Administrative Court (TAR) the decision on the methods of compliance. In February 2017, Vodafone presented the Lazio Regional Administrative Court with four new appeals against the Ministry of Economic Development and TIM regarding observance of the ruling, upheld on appeal, countermanding the resolutions for the years 1999–2003 and repayment of the aforesaid amounts of around 38 million euros already paid to the Ministry of Economic Development as a contribution.

With a judgment issued in June 2018, the TAR rejected all of Vodafone's appeals for observance, and, as requested by TIM, expressly affirmed that AGCom must renew the proceedings, particularly with regard to the determination of the degree of replaceability between fixed and mobile telephony. Vodafone challenged the four judgments before the Council of State, which, with a decision of October 2019, upheld Vodafone's appeal and confirmed the restitutory obligation of the sums in question applicable to TIM.

Dispute relative to "Adjustments on license fees" for the years 1994-1998

With regard to the judgements sought in previous years concerning the Ministry of Communications' request for payment of the balance of the amounts paid in concession charges for the years 1994–1998 (for a total of 113 million euros), the Administrative Court (TAR) for Lazio rejected the Company's appeal against the request for adjustment of the license fee for 1994 in the amount of approximately 11 million euros, 9 million euros of which against turnover not received due to bad debts. TIM lodged an appeal. On the outcome of proceedings, with the ruling of December 2019, the Council of State partially accepted TIM's position, establishing the principle, according to which, the receivables referring to 1994 not collected for reasons not attributable to the operator, could have been deducted from the tax base for calculating the concession fee.

With two further judgements the Administrative Court (TAR) for Lazio, reiterating the reasons expressed previously, also rejected the appeals in which the Company challenged the requests for payment of outstanding balances of license fees for the years 1995 and 1996–1997–1998, in the amount of approximately 46 million euros. TIM has appealed before the Council of State also against these judgements.

With reference to the 1998 fee adjustment (equal to about 41 million), the Lazio TAR, by TAR order of December 2018, suspended the judgment, raising preliminary questions with the EU Court of Justice on the correct scope of EC Directive no. 97/13 (in the matter of general authorizations and individual licenses in the field of telecommunications services on the basis of the currently pending litigation on the 1998 license fee, currently pending before the Rome Court of Appeal and illustrated in a subsequent paragraph).

The referred questions were based, inter alia, on the question posed to the Court of Justice on the possible conflict between the aforementioned EC Directive 97/13 and national law, which extended the obligation for telecommunications license-holders to pay the license fee for 1998 (commensurate with a portion of turnover), despite the liberalization process underway. In its judgment of March 2020, the EU Court of Justice held that the EU regulatory system must be interpreted as not allowing national legislation to extend to 1998 the obligation imposed on a telecommunications undertaking that was previously the concession holder (such as TIM) to pay a fee calculated on the basis of turnover and not only the administrative costs connected with the granting, management, control and implementation of the general authorizations and individual licenses scheme. The Court held, inter alia, that the Council of State – having held in its judgment 7506/2009 that the fee imposed for 1998 on TIM, the holder of an authorization existing on the date of entry into force of Directive 97/13, was due – interpreted national law in a way that was incompatible with EU law, as interpreted by the Court in its judgment of February 21, 2008. Following the judgment of the EU Court of Justice, the opinion on the final calculation of the 1998 charges was summarized before the Lazio Regional Administrative Court, which, in a judgment given last February, declared TIM's appeal as unacceptable for procedural reasons, namely due to the prevalence of the formal ruling consisting of judgment no. 7506/09; in substantive terms, on the other hand, the judgment of the EU Court of Justice once again ascertained the European Community unlawful nature of the credit claim by the PA to obtain payment of the 1998 charges and, consequently, the final balance. The company will challenge the judgment of the Lazio Regional Administrative Court in the required manner.

Wind Tre

With writ of summons before the Milan Court, served in April 2019, Wind Tre S.p.A. filed a damages claim against TIM for approximately 255 million euros in compensation for damages arising from alleged anticompetitive conduct in the years 2014-2018. More specifically, according to Wind Tre, TIM allegedly illegally used information gained when supplying provisioning and wholesale services assurance through its sales division to convince customers to return to TIM or to activate the new user with TIM; carried out commercial promotion activity for TIM through its technical personnel when repairing failures or activating Wind Tre users; behaved unfairly in order to get Wind Tre customers to switch over to TIM. To support its arguments, Wind Tre also pleads some elements that emerged during the investigation for the AGCM A514 case. TIM has filed an appearance, fully contesting the claims of the other party and making a counterclaim, based on facts similar to those put forward by the plaintiff, reserving the right to quantify the damages suffered. In its initial pleadings, Wind Tre extended its claims to June 2019 and quantified the damages claimed at approximately 346 million euros. TIM has made its counterclaim for around 20 million euros for damage to its commercial image, as well as damage due to loss of customers, to be quantified in the course of the proceedings, possibly on an "ex aequo et bono" basis. In December 2020, the case was settled as part of a global settlement with Wind Tre.

Poste

There are some pending actions brought, at the end of the 1990s, by Ing. C. Olivetti & C. S.p.A. (now TIM) against Poste, the Italian postal service, concerning non-payment of services rendered under a series of contracts to supply IT goods and services. The judgements issued in the lower courts established an outcome that was partially favorable to the ex-Olivetti, and have been appealed against by Poste in individual rehearings.

In this respect, while a 2009 judgement of the Rome Appeal Court confirmed one of the outstanding payables to TIM, another judgement by the same Court declared void one of the disputed contracts. After this judgement, Poste had issued a writ for the return of approximately 58 million euros, opposed by TIM given that the judgement of the Supreme Court for amendment of the above judgement is still pending.

After the 2012 judgement of the Supreme Court that quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter of issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected. The judgement was resubmitted to another section of the Rome Appeal Court. In ruling no. 563 of January 25, 2019, the Rome Court of Appeal at the time of proceedings, reversing the Company's previous unfavorable appeal, confirmed the contract's validity and, with

it, the legitimacy of TIM's view of the amount already collected, of which Poste had requested reimbursement. This ruling was challenged by Poste with appeal filed with the Court of Cassation, notified on July 31, 2019, which TIM challenged with relevant counter appeal.

Elinet S.p.A. Bankruptcy

In 2014, the trustees in the bankruptcy of Elinet S.p.A., and subsequently the trustees of Elitel S.r.l. and Elitel Telecom S.p.A. (the parent, at the time, of the Elitel group) appealed the judgment by which the Court of Rome dismissed the damages claim brought by the trustees of the Elinet-Elitel group, filing a new damages claim for a total of 282 million euros. The Company is alleged to have exercised management and control powers over the plaintiff, and, with it, over the Elitel group (an OLO in which TIM has never held any equity interest) through the management of trade receivables. TIM filed an appearance, challenging the claims made by the other party. The judgment on the appeal was handed down with ruling in July 2019, which with reference to TIM confirmed full legality of its conduct and total non-existence of any element of management and coordination. The receivers of Elinet S.p.A. and Elitel Telecom S.p.A. appealed to the Court of Cassation in January 2020 to obtain the annulment of the judgment in the second instance. The receiver of Elitel S.r.l. has not filed an appeal with the Court of Cassation and, consequently, the total claim for damages has been reduced to 244 million euros. TIM notified a counterclaim asking confirmation of the ruling appealed against.

Antitrust proceedings PS11532 – “TIM in Nave”

Launched on December 4, 2019 prompted by complaints filed by several consumers, the proceedings, for the “TIM in Nave” service with the challenge of Deceptiveness on customer information profiles and aggressiveness profiles. “TIM in Nave” is not an ancillary service, but, in full compliance with the sector regulations, a type of roaming tariff which is activated when the customer is under the maritime coverage network. Significant commitments were made to improve information, making the consumer fully aware of how “TIM in Nave” works. Proceedings ended on July 28, 2020 with the imposition of a fine equal to 1.8 million euros. Similar proceedings also ended against the other major operators. TIM appealed the measure to the Regional Administrative Court of Lazio, asking for its cancellation and alternatively the reduction of the fine.

Antitrust Case IP 327 - IBAN discrimination

Officially started on December 23, 2019 by the Authority, the proceedings concern the alleged non-compliance with the provisions of PV4 on IBAN Discrimination, dated April 2019. In particular, AGCM disputed that the direct debit process on the web channel is not yet automated and therefore the customer is not autonomous in managing this activity. TIM eliminated all forms of discrimination between Italian banks and SEPA area banks with the complete automation of the web domiciliation process. Proceedings ended on July 3, 2020 with the imposition of a fine of 500,000 euros. Similar proceedings also ended against the other major operators.

Brazil - Opportunity Arbitration

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 claimant'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 Court 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 (the “2016 Arbitration Award”).

In April 2017 the Opportunity group filed an appeal against the 2016 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 2016 Arbitration Award, filed by the Opportunity group, asking for a new award. 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 2016 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 2016 Arbitration Award, in October 2019 the ICC held the discussion hearing in Paris. In August 2020, the Arbitration Court issued the award rejecting the Request for Revision presented by the Opportunity Group (the “2020 Arbitration Award”). In December 2020, the Opportunity group filed an appeal against the 2020 Arbitration Award before the Paris Court of Appeal.

Iliad

By summons served during the first quarter of 2020, Iliad Italia S.p.A. sued TIM before the Court of Milan for alleged anti-competitive conduct, including through the Kena Mobile brand, which was allegedly aimed at hindering its entry to and consolidation in the mobile phone market in Italy, seeking damages of at least 71.4 million euros.

TIM filed an appearance, fully disputing the requests of Iliad Italia S.p.A.; and, in turn, submitting a counterclaim in accordance with Art. 2598 of the Italian Civil Code, with reference to the denigration implemented by Iliad Italia S.p.A. in regard to TIM and formulating a symmetrical claim for compensation for damages. In the first preliminary brief, Iliad updated its claim for damages, taking it to 242.8 million euros. The next hearing is scheduled for April 13, 2021.

B) Other information

Mobile telephony – criminal proceedings

In March 2012 TIM was served notice of the conclusion of the preliminary enquiries, which showed that the Company was being investigated by the Public Prosecutor of Milan pursuant to the Legislative Decree n. 231/2001, for the offences of handling stolen goods and counterfeiting committed, according to the alleged allegations, by fourteen employees of the so-called “ethnic channel”, with the participation of a number of dealers, for the purpose of obtaining undeserved commissions from TIM.

The Company, as the injured party damaged by such conduct, had brought two legal actions in 2008 and 2009 and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defense, together with a technical report by its own expert, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. In December 2012, the Public Prosecutor's Office filed a request for 89 defendants and the Company itself to be committed for trial.

During the preliminary hearing, the Company was admitted as civil party to the trial and, in November 2013, the conclusions in the interest of the civil party were filed, reaffirming TIM's total lack of involvement in the offences claimed.

At the end of the preliminary hearing, which took place in March 2014, the Judge for the Preliminary Hearing committed for trial all the defendants (including TIM) who had not asked for their situation to be settled with alternative procedures, on the grounds that “examination in a trial” was needed. In April 2016, at the end of the first part of the trial, the Public Prosecutor asked for TIM to be sentenced to pay an administrative fine of 900 thousand euros, but decided not to ask for confiscation of any of the presumed profits of the offences (quantified in the committal proceedings as totaling several million euros), based on the assumption that TIM had in any event remedied the presumed organizational inadequacies. While acknowledging the considerable redimensioning of the accusations, the Company has reiterated its total non-involvement in the facts at issue. In November 2016 the Court gave a verdict acquitting the Company on the grounds that there was no case to answer. All the individuals charged were also acquitted on various grounds.

The Public Prosecutor appealed the acquittal and appealed to the Court of Cassation “per saltum”. In January 2019, the Italian Supreme Court of Cassation agreed to the appeal and therefore ordered that the documents of the proceedings be sent to the Milan Court of Appeal.

The proceedings were assigned to Chambers IV of the Milan Court of Appeal and are awaiting scheduling of the hearing.

Dispute concerning the license fees for 1998

TIM has issued civil proceedings against the office of the Prime Minister for compensation of the damage caused by the Italian State through appeal judgement no.7506/09 by the Council of State that, in the view of the Company, violates the principles of current European community law.

The main claim which the proceedings are founded on is based on community jurisprudence that recognizes the right to assert the responsibility of the State in relation to violation of rights recognized in community law and injured by a judgement that has become definitive, in respect of which no other remedy may be applied. The judgement of the Council of State definitively denied TIM the right to obtain restitution of the concession charge for 1998 (totaling 386 million euros for Telecom Italia and 143 million euros for the former TIM Company, plus interest), already denied by the Lazio regional administrative court despite the favorable and binding opinion of

the European Court of Justice in February 2008. This judgement concerned the conflict between EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and the national regulations that had deferred, for 1998, the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The Company then proposed an alternative compensation claim, within the sphere of the same proceedings, for tort pursuant to art. 2043 of the Italian Civil Code. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation. The Avvocatura di Stato filed an appearance and submitted a counterclaim for the same sum. The case is subject to eligibility analysis by the Court, which declared the inadmissibility of TIM's main claim (case for damages for manifest breach of community law pursuant to law 117/88). However, this decision was amended in favor of the Company on appeal. In March 2015 the Rome Court issued its judgement in the first instance, declaring the Company's application inadmissible.

In 2015, TIM has appealed the decision, and the case is now pending the hearing specifying the nature of the forms of order sought. The Court of Appeal has scheduled the hearing for closing arguments for April 2, 2019. Thereafter, without any new procedural activities having taken place, the Court of Appeal incontrovertibly deferred the hearing for closing arguments first to 2020 and then to 2021 (from when the terms for conclusion and replies shall run, which will be followed shortly thereafter by the issue of the judgment). These deferrals were followed by the latest, of January 15, 2021, scheduling the new hearing for January 25, 2022.

On the matters underlying the case, the following must be noted:

- on the considered lack of jurisdiction of the Court of Rome (concerned by the judgment of the Court of Rome appealed by TIM) to judge the liability of the Italian government for the work of senior magistrates (in the case in point, the Council of State), which would have led to the declared inadmissibility of the claim in accordance with Art. 5, law no. 117/1978 (old text) - the United Chambers of the Court of Cassation ruled with judgment no. 14842 on June 7, 2018, confirming the jurisdiction of the Court of Rome and, therefore, the correctness of TIM's choice to base its lawsuit in the Court of Rome;
- on the unlawful nature of the conduct of the Italian government - and, therefore, on the liability of the State-Court in accordance with Law no. 117/1998 - once again, the EU Court of Justice has ruled, deciding on the prejudicial matter raised by the Lazio TAR in other, connected proceedings, in its judgment given on March 4, 2020 in C-34/19, stressing that TIM was not required to pay the charges demanded by the State for 1998 and, therefore, confirming the clear violation by the Council of State of European Community law (also because in clear conflict with the decision already given by the EU Court of Justice on February 21, 2008 in C-296/06, as, moreover, already ruled by the Court of Appeal of Rome, Chambers I, in Decree of January 31, 2012, which sanctioned the procedural admissibility of TIM's lawsuit);
- on the matter of the right to repeat the charges paid for 1998 - the Court of Cassation ruled in its judgment no. 18603 given on September 7, 2020, rejecting the appeal brought by the Presidency of the Council against the judgment whereby the Court of Appeal of Rome had upheld the claim for compensation made by Vodafone (payment of charges for 1998) for the same title in separate proceedings.

In short, the company paid the charges disputed in 1998; it promptly challenged the administrative provision that had unfairly required said payment, before the administrative court; the administrative proceedings before the Council of State concluded negatively in 2009 (despite the recalled opposite judgment of the European Court of Justice); the civil proceedings of first instance concluded in March 2015 with a judgment of rejection for grounds of admissibility (then solved in the sense indicated by the company with the referenced judgment of Cassation in United Chambers no. 14842/18) and more than 6 years after the first instance judgment - going from deferral to deferral - the appeal judgment (that could only uphold the mentioned judgments of the Court of Justice and the Court of Cassation) has not yet been issued (nor, on the basis of these repeated deferrals, can the company forecast when it will be given).

The company is examining the various scenarios and legal claims (national, European Community, etc.) that may contribute towards defining the appeal dispute. It is considered, in fact, that the principles of the reasonable duration of the trial, in accordance with subsection 2 of article 111 of the Constitution and in accordance with article 6 of the European Convention on Human Rights, are violated by these events, considering: (i) the year in which payment was made of the undue charges is 1998; (ii) the value of these charges is approximately 529 million euros plus interest from that date; (iii) the extremely long procedural process has not even led to an appeal judgment (started in 2015 and with an unpredictable conclusion, given the continuous deferrals); (iv) the circumstance that the legal matter appears to be readily able to be settled, as not one but two judgments have already been given by the EU Court of Justice declaring payment of the charges to be incompatible with European Community legislation (judgments that have currently been ignored by the national court).

In these analyses aimed at settling the appeal judgment, it must be noted that on January 25, 2021, the Company filed a request to bring the hearing forward with the Rome Court of Appeal (it had been postponed, as mentioned, to January 25, 2022); the idea of this was to prevent yet another deferral of the case, which - as we know - regards breach of not one but two decisions given *inter partes* on the same matter, by the European Union Court of Justice, due to clear violation of European law by the State-Court. By order given on February 08, 2021, the Court of Appeal of Rome (second chambers specialized in business matters) considered the petition for an earlier trial

to be admissible, scheduling the hearing for November 30, 2021. The company trusts that by bringing forward the hearing date, the dispute may be settled on appeal within a reasonable time-frame.

Vodafone (formerly TELETU)

By writ of summons of February 2012, TIM summonsed the operator TeleTu (today incorporated into Vodafone) to the Court of Rome for having unduly impeded customers intending to return to TIM. The damages claim has been quantified for approximately 93 million euros. By judgment of December 2020, the Court ascertained that from July 2008 to October 2011, TELETU pursued illegal competition pursuant to art. 2598 of the Italian Civil Code in connection with requests for migration to TIM, ordering it to compensate TIM for the amount of 1,378,000 euros plus interest and revaluation.

Other liabilities related to the sale of assets and shareholdings

As part of agreements for the sale of assets and companies, the TIM Group has undertaken guarantees to indemnify the buyers for liabilities mainly connected with legal, tax, social security, and labor law issues, for an amount normally set as a percentage of the purchase price.

To cover such contingent liabilities, amounting to a total of around 300 million euros, provisions totaling approximately 9 million euros have been allocated solely for those cases for which payment is considered likely. Furthermore, we report that in relation to the disposal of assets and investments, the TIM Group has commitments to pay additional indemnities under specific contractual provisions, the contingent liability of which cannot be measured at present.

C) Commitments and guarantees

Guarantees, net of back-to-back guarantees received, amounted to 53 million euros.

The guarantees provided by third parties to Group companies, amounting to 6,044 million euros, related to guarantees provided by banks and other financial institutions as a guarantee of the proper performance of contractual obligations.

In particular, the following should be noted:

- The TIM Group issued six guarantees in favor of the Ministry of Economic Development for a total of 1,922 million euros for the deferment of the payment of the amount due for the acquisition of user rights to frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services. At December 31, 2020, the remaining guarantee was 1,794 million euros;
- The insurance guarantees, which totaled 812 million euros, mainly refer to guarantee financing by the TIM Group in applying legal provisions for contracts of Public Administrations and similar bodies.
- the TIM Group issued guarantees in favor of INPS in support of the application - by TIM and some Group companies - of Article 4 of Italian Law 92 of June 28, 2012, for the voluntary redundancy of employees meeting the requirements; the total amount of the guarantees issued is 1,280 million euros, of which 1,208 million euros for TIM S.p.A. and 72 million euros for Group companies.

Furthermore, in May 2018, TIM issued a surety to the Prime Minister's Office for 74.3 million euros to secure an appeal to the Lazio Administration Court for a provisional stay of the administrative fine levied on TIM following the preliminary investigation connected with the penalty proceeding initiated under Article 2 of Decree Law 21 of 3/15/2012 (the "Golden Power" law).

There are also surety bonds on the telecommunication services in Brazil for 81 million euros.

Assets guaranteeing financial liabilities

With reference to the subsidized loan contracts granted by the Brazilian Development Bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular, now merged into TIM S.A. and for which specific covenants had been issued, it should be noted that these loans were fully repaid during 2020.

NOTE 27

REVENUES

These decreased by 2,169 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Equipment sales	1,402	1,647
Services	14,403	16,327
Total	15,805	17,974

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 1,198 million euros (1,205 million euros in 2019), included in Costs of services.

Revenues from services in 2020 include revenues for voice and data services on fixed and mobile networks for Retail customers for 8,734 million euros and for other Wholesale operators for 2,793 million euros.

In 2020, adjustments were booked of non-recurring revenues for 38 million euros, connected with the commercial initiatives of TIM S.p.A. to support customers in dealing with the COVID-19 emergencies. For more details, see the Note "Significant non-recurring Events and Transactions".

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

NOTE 28

OTHER OPERATING INCOME

These decreased by 722 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Late payment fees charged for telephone services	46	59
Recovery of employee benefits expenses, purchases and services rendered	14	50
Capital and operating grants	34	33
Damages, penalties and recoveries connected with litigation	24	20
Estimate revisions and other adjustments	59	36
Brazil Business Unit tax proceeds	—	685
Other	34	50
Total	211	933

In 2019, tax proceeds included, among others, the income related to the recognition in the Brazil Business Unit of tax receivables resulting from the favorable 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 proceeds, amounting to 685 million euros, included 407 million euros in tax refunds and 278 million euros for legal revaluation.

NOTE 29

ACQUISITION OF GOODS AND SERVICES

Acquisitions of goods and services decreased by 290 million euros compared to 2019. The breakdown is as follows:

(million euros)		2020	2019
Acquisition of raw materials and merchandise	(a)	1,203	1,396
Costs of services:			
Revenues due to other TLC operators		1,198	1,205
Costs for telecommunications network access services		116	119
Commissions, sales commissions and other selling expenses		996	1,133
Advertising and promotion expenses		196	218
Professional and consulting services		216	220
Utilities		435	472
Maintenance		277	244
Outsourcing costs for other services		348	403
Mailing and delivery expenses for telephone bills, directories and other materials to customers		46	63
Other service expenses		706	562
	(b)	4,534	4,639
Lease and rental costs:			
Rent and leases		51	68
TLC circuit subscription charges		87	110
Other lease and rental costs		298	250
	(c)	436	428
Total	(a+b+c)	6,173	6,463

In 2020, non-recurring operating costs were incurred in reference to procurement and various costs for approximately 16 million euros, which became necessary for the management of the COVID-19 health emergency, mainly due to the acquisition of personal protection equipment and thermoscanners, and costs for environmental hygiene services. For more details, see the Note “Significant non-recurring Events and Transactions”.

In 2020, costs for leased assets include around 11 million euros in short-term lease payments of modest value (approximately 20 million euros in 2019).

NOTE 30

EMPLOYEE BENEFITS EXPENSES

These amounted to 2,639 million euros, down 438 million euros compared with 2019 and were broken down as follows:

(million euros)	2020	2019
Employee benefits expenses		
Wages and salaries	1,804	1,950
Social security expenses	647	716
Other employed benefits	146	143
(a)	2,597	2,809
Costs and provisions for temp work	(b)	—
Miscellaneous expenses for personnel and other labor-related services rendered		
Charges for termination benefit incentives	1	9
Corporate restructuring expenses	38	256
Other	3	3
(c)	42	268
Total	(a+b+c) 2,639	3,077

Employee benefits expenses mainly related to the Domestic Business Unit for 2,401 million euros (2,753 million euros in 2019) and to the Brazil Business Unit for 236 million euros (323 million euros in 2019).

“Corporate restructuring expenses” amounted to 38 million euros. Provisions are related to the effective exits of the Parent Company in the year 2020 (also through the application of Article 4 of Law 92 of June 28, 2012, as defined by that in the Trade Union Agreement of February 26, 2019 and the Trade Union Agreement signed June 4, 2020) and to the provision made for exits based on the application of Article 4 of Law 92 of June 28, 2012 following the agreements signed with trade unions on April 22, 2020 by Olivetti and Telecom Italia Trust Technologies, and on April 17, 2020 by Telecontact. Expenses totaling 256 million euros were recognized in 2019.

In 2020, non-recurring costs were incurred for approximately 7 million euros, made necessary to address the COVID-19 health emergency. For more details, see the Note “Non-recurring Events and Transactions”.

The average salaried workforce, including personnel with temp work contracts, stood at 49,099 employees in 2020 (51,917 in 2019). A breakdown by category is as follows:

(number of units)	2020	2019
Executives	587	566
Middle Management	4,083	4,157
White collars	44,420	47,188
Blue collars	—	1
Employees on payroll	49,090	51,912
Employees with temp work contracts	9	5
Total average salaried workforce	49,099	51,917

Headcount in service at December 31, 2020, including personnel with temp work contracts, stood at 52,347 employees (55,198 at December 31, 2019), showing a decrease of 2,851 employees.

NOTE 31

OTHER OPERATING EXPENSES

Other operating expenses decreased by 664 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Write-downs and expenses in connection with credit management	423	577
Provision charges	43	497
TLC operating fees and charges	199	268
Indirect duties and taxes	96	124
Penalties, settlement compensation and administrative fines	120	58
Association dues and fees, donations, scholarships and traineeships	12	12
Other	68	89
Total	961	1,625
<i>of which, included in the supplementary disclosure on financial instruments</i>	423	577

In 2020, non-recurring operating costs were incurred for a total of 46 million euros, mainly referring to provisions and expenses connected with credit management deriving from the deterioration of the macroeconomic context as a consequence of the COVID-19 pandemic. For more details, see the Note "Significant non-recurring Events and Transactions".

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

NOTE 32

INTERNALLY GENERATED ASSETS

These decreased by 35 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Intangible assets with a finite useful life	231	238
Tangible assets	271	299
Total	502	537

They mainly refer to labor costs for technical staff dedicated to the design, construction and testing of network infrastructure and systems, as well as software development and development of network solutions, applications and innovative services.

NOTE 33

DEPRECIATION AND AMORTIZATION

These decreased by 311 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Amortization of intangible assets with a finite useful life		
Industrial patents and intellectual property rights	1,152	1,187
Concessions, licenses, trademarks and similar rights	473	486
Other intangible assets	2	2
(a)	1,627	1,675
Depreciation of tangible assets owned		
Buildings (civil and industrial)	35	38
Plant and equipment	2,115	2,272
Manufacturing and distribution equipment	11	12
Other	140	147
(b)	2,301	2,469
Depreciation of rights of use assets		
Property	397	475
Plant and equipment	252	264
Other	39	44
(c)	688	783
Total	(a+b+c) 4,616	4,927

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

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

NOTE 34

GAINS/(LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

This item is broken down below:

(million euros)	2020	2019
Gains on disposals of non-current assets:		
Gains on the retirement/disposal of intangible, tangible and user rights on rental	29	14
Gains on the disposal of investments in subsidiaries	—	—
(a)	29	14
Losses on disposals of non-current assets:		
Losses on the retirement/disposal of intangible, tangible and user rights on rental	40	45
Losses on the disposal of investments in subsidiaries	—	18
(b)	40	63
Total	(a-b)	(49)

In 2019, the item “loss on the disposal of investments in consolidated companies” is related to the sale of the company Persidera S.p.A.

Following the sale of Persidera, which generated proceeds of 142 million euros, as required by IAS 36, paragraph 86 the derecognition of the associated goodwill amounting to 68 million euros was carried out, with the result shown in the table.

In the Separate Financial Statements, this disposal transaction generated a total gain of about 8 million euros.

NOTE 35

IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

This item is broken down below:

(million euros)	2020	2019
Reversals of impairment losses on non-current assets:		
on intangible assets	—	—
on tangible assets	—	—
(a)	—	—
Impairment losses on non-current assets:		
on intangible assets	—	—
on tangible assets	8	—
(b)	8	—
Total	(a-b)	(8)

Impairment losses for the year 2020 were mainly due to the provisions made by the Parent Company TIM S.p.A. in view of inventory differences for plant warehouse materials held at external company sites.

NOTE 36

OTHER INCOME (EXPENSES) FROM INVESTMENTS

Details are as follows:

(million euros)	2020	2019
Dividends from Other investments	—	1
Net gains on the sale of investments in associates and joint ventures accounted for using the equity method	452	2
Other income	2	—
Total	454	3
<i>of which, included in the supplementary disclosure on financial instruments</i>	2	1

In 2020, the item comprises “Net gains on the sale of investments in associates and joint ventures accounted for using the equity method” relating to:

- 441 million euros for the net capital gain recognized following the dilution of the TIM Group investment in INWIT S.p.A. capital from 60% to 37.5%, following the merger of INWIT with Vodafone Towers;
- 7 million euros, related to the capital gain linked to the transfer on April 23, 2020, of a package of shares equal to 4.3% of the share capital of INWIT, were sold in an accelerated book-building procedure reserved for institutional investors;
- 2 million euros relating to the capital gain connected with the sale of a share package equating to 1.2% of the share capital of INWIT sold on October 2, 2020 to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited;
- 2 million euros relating to the capital gain connected with the sale of a share package equating to approximately 1.8% of the share capital of INWIT in respect of the exercise of a purchase option by the SPV established by Canson Capital Partners (Guernsey) Limited;

For further details, see the note “Investments”.

“Other income” for 2020 relates to income distributed by the fund Northgate CommsTech Innovations Partners L.P..

In 2019, this item was positive by 3 million euros. Specifically, “gains on disposals of investments in associates and joint ventures accounted for using the equity method” mainly related to the sale of the investment of TIM S.p.A. in Alfiere S.p.A.

NOTE 37

FINANCE INCOME AND EXPENSES

Finance income (expenses) showed a net expense of 1,179 million euros (expense of 1,436 million euros in 2019) and comprises:

(million euros)	2020	2019
Finance income	1,143	946
Finance expenses	(2,322)	(2,382)
Net finance income/(expenses)	(1,179)	(1,436)

The items break down as follows:

(million euros)	2020	2019
Interest expenses and other finance expenses:		
Interest expenses and other costs relating to bonds	(872)	(962)
Interest expenses to banks	(65)	(74)
Interest expenses to others	(20)	(21)
Interest expenses on financial lease liabilities	(283)	(356)
	(1,240)	(1,413)
Commissions	(74)	(67)
Miscellaneous finance expenses (*)	(124)	(211)
	(198)	(278)
Interest income and other finance income:		
Interest income	55	76
Income from financial receivables, recorded in Non-current assets	2	—
Income from securities other than investments, recorded in Non-current assets	—	—
Income from securities other than investments, recorded in Current assets (*)	11	26
Miscellaneous finance income	27	19
	95	121
Total net finance interest/(expenses)	(a) (1,343)	(1,570)
Other components of financial income and expense:		
Net exchange gains and losses	(51)	3
Net result from derivatives	109	133
Net fair value adjustments to fair value hedge derivatives and underlyings	3	9
Net fair value adjustments to non-hedging derivatives	103	(11)
Total other components of financial income and expense	(b) 164	134
Total net financial income (expenses)	(a+b) (1,179)	(1,436)
<i>of which, included in the supplementary disclosure on net financial instruments</i>	<i>(876)</i>	<i>(1,107)</i>

(*) of which IFRS 9 impact:

(million euros)	2020	2019
<i>Income/Expenses from IFRS 9 reserve impairment on financial assets measured at FVTOCI</i>	<i>(1)</i>	<i>(2)</i>
<i>Reversal of IFRS 9 impairment reserve on financial assets measured through FVTOCI</i>	<i>1</i>	<i>8</i>
<i>Impairment losses on financial assets other than investments</i>	<i>—</i>	<i>—</i>

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

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

(million euros)	2020	2019
Exchange gains	393	141
Exchange losses	(444)	(138)
Net exchange gains and losses	(51)	3
Income from fair value hedge derivatives	47	43
Charges from fair value hedge derivatives	—	—
Net result from fair value hedge derivatives (a)	47	43
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	376	474
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	(309)	(381)
Net effect of the Reversal of the Reserve for fair value adjustment of cash flow hedge derivatives to the income statement (interest rate component) (b)	67	93
Income from non-hedging derivatives	6	4
Charges from non-hedging derivatives	(11)	(7)
Net result from non-hedging derivatives (c)	(5)	(3)
Net result from derivatives (a+b+c)	109	133
Positive fair value adjustments to fair value hedge derivatives	46	100
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives	(44)	(91)
Net fair value adjustments (d)	2	9
Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives	6	1
Negative fair value adjustments relating to fair value hedge derivatives	(5)	(1)
Net fair value adjustments (e)	1	—
Net fair value adjustments to fair value hedge derivatives and underlying instruments (d+e)	3	9
Positive fair value to non-hedging derivatives (f)	174	62
Negative fair value adjustments relating to non-hedging derivatives (g)	(71)	(73)
Net fair value adjustments to non-hedging derivatives (f+g)	103	(11)

NOTE 38

PROFIT (LOSS) FOR THE YEAR

Profit for the year compared to 2019 increased by 6,110 million euros and was broken down as follows:

(million euros)	2020	2019
Profit (loss) for the year	7,352	1,242
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	7,224	900
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	16
Profit (loss) for the year attributable to Owners of the Parent	7,224	916
Non-controlling interests:		
Profit (loss) from continuing operations	128	326
Profit (loss) from Discontinued operations/Non-current assets held for sale	—	—
Profit (loss) for the year attributable to Non-controlling interestss	128	326

NOTE 39

EARNINGS PER SHARE

	2020	2019
Basic earnings per share		
Profit (loss) for the year attributable to the Owners of the Parent	7,224	916
Less: additional dividends for the savings shares (0.011 euros per share and up to capacity)	(66)	(66)
(million euros)	7,158	850
Average number of ordinary and savings shares (millions)	21,080	21,067
Basic earnings per share – Ordinary shares (euros)	0.34	0.04
Plus: additional dividends per savings share	0.01	0.01
Basic earnings per share – Savings shares (euros)	0.35	0.05
Basic earnings per share from continuing operations		
Profit (loss) from continuing operations attributable to Owners of the Parent	7,224	900
Less: additional dividends for the savings shares	(66)	(66)
(million euros)	7,158	834
Average number of ordinary and savings shares (millions)	21,080	21,067
Basic earnings per share from continuing operations – Ordinary shares (euros)	0.34	0.04
Plus: additional dividends per savings share	0.01	0.01
Basic earnings per share from continuing operations – Savings shares (euros)	0.35	0.05
Basic earnings per share from Discontinued operations/Non-current assets held for sale		
Profit (loss) from Discontinued operations/Non-current assets held for sale (million euros)	—	16
Average number of ordinary and savings shares (millions)	21,080	21,067
Basic earnings per share from Discontinued operations/Non-current assets held for sale – Ordinary shares (euros)	—	—
Basic earnings per share from Discontinued operations/Non-current assets held for sale – Savings shares (euros)	—	—
	2020	2019
Average number of ordinary shares	15,051,766,083	15,039,368,195
Average number of savings shares	6,027,791,699	6,027,791,699
Total	21,079,557,782	21,067,159,894

	2020	2019
Diluted earnings per share		
Profit (loss) for the year attributable to the Owners of the Parent	7,224	916
Dilution effect of stock option plans and convertible bonds (*)	42	41
Less: additional dividends for the savings shares (0.011 euros per share and up to capacity)	(66)	(66)
(million euros)	7,200	891
Average number of ordinary and savings shares (millions)	22,163	22,167
Diluted earnings per share – Ordinary shares (euros)	0.33	0.04
Plus: additional dividends per savings share	0.01	0.01
Diluted earnings per share – Savings shares (euros)	0.34	0.05
Diluted earnings per share from continuing operations		
Profit (loss) from continuing operations attributable to Owners of the Parent	7,224	900
Dilution effect of stock option plans and convertible bonds (*)	42	41
Less: additional dividends for the savings shares	(66)	(66)
(million euros)	7,200	875
Average number of ordinary and savings shares (millions)	22,163	22,167
Diluted earnings per share from continuing operations – Ordinary shares (euros)	0.33	0.04
Plus: additional dividends per savings share	0.01	0.01
Diluted earnings per share from continuing operations – Savings shares (euros)	0.34	0.05
Diluted earnings per share from Discontinued operations/Non-current assets held for sale		
Profit (loss) from Discontinued operations/Non-current assets held for sale (million euros)	—	16
Dilution effect of stock option plans and convertible bonds	—	—
Average number of ordinary and savings shares (millions)	22,163	22,167
Diluted earnings per share from Discontinued operations/Non-current assets held for sale – Ordinary shares (euros)	—	—
Diluted earnings per share from Discontinued operations/Non-current assets held for sale – Savings shares (euros)	—	—
	2020	2019
Average number of ordinary shares (*)	16,134,874,545	16,139,213,020
Average number of savings shares	6,027,791,699	6,027,791,699
Total	22,162,666,244	22,167,004,719

(*) The average number of ordinary shares also includes the potential ordinary shares relating to the equity compensation plans of employees for which the (market and non-market) performance conditions have been met, in addition to the theoretical number of shares that are issuable as a result of the conversion of the unsecured equity-linked convertible bond. Consequently, the “Net profit (loss) for the year attributable to Owners of the Parent and the “Profit (loss) from continuing operations attributable to Owners of the Parent” were also adjusted to exclude the effects, net of tax, related to the above-mentioned plans and to the convertible bond (+42 million euros in 2020; +41 million euros in 2019).

Future potential changes in share capital

The table below shows future potential changes in share capital, based on the issuance of the convertible bond by TIM S.p.A. in March 2015, in the 2020 Broad-Based Share Ownership Plan and plans for long-term share incentives, still outstanding at December 31, 2020:

	Number of maximum shares issuable	Capital (thousands of euros)	Paid-in capital (thousands of euros)	Subscription price per share (euros)
Capital increases already approved (ordinary shares)				
2020 Broad-based Share Ownership Plan (free issue) (*)	42,114,637			
2020-2022 Long Term Incentive Plan (free issue)	180,000,000			
Stock Options	222,114,637			
2015 Convertible Bond (ordinary shares)**	1,112,718,371	2,000,000	N.A.	N.A.
Bonds	1,112,718,371	2,000,000		
Total	1,334,833,008	2,000,000		

(*) The maximum number of free issues that can be issued is obtained by applying the ratio of assignment of one third of the 126,343,913 new ordinary shares issued in exchange for payment on November 27, 2020 (equal to 99.09% of the 127,500,000 offered).

(**) The number of shares that could potentially be issued is indicated subject to any adjustment.

Further information is provided in the Notes “Financial liabilities (non-current and current)” and “Equity compensation plans”.

NOTE 40

SEGMENT REPORTING

a) Segment reporting

The operating segments of the TIM Group, organized for the telecommunications business and the relative geographical location are as follows:

- **Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for end customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group, which, at international level (Europe, the Mediterranean and South America), develops fiber optic networks for wholesale customers, the operations of Olivetti (products and services for Information Technology), and, up to March 31, 2020, INWIT S.p.A. (a company operating in the electronic communications infrastructure sector, and in particular the infrastructure for hosting radio transmission equipment for mobile telephone networks, both for TIM and other operators) and the units supporting the Domestic sector.
- **Brazil:** includes mobile and fixed telecommunications operations in Brazil (TIM S.A.);
- **Other Operations:** include the financial companies (Telecom Italia Capital S.A. and Telecom Italia Finance S.A.) and other minor companies not strictly related to the TIM Group's core business.

In view of the decision-making process adopted by the TIM Group, segment reporting is presented for financial operating data.

The results of financial management, income taxes for the year, as well as gains (losses) from Discontinued operations / Non-current assets held for sale are presented at a consolidated level.

Separate Consolidated Income Statement by Operating Segment

(million euros)	Domestic		Brazil		Other activities		Adjustments and eliminations		Consolidated Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Third-party revenues	12,874	14,039	2,931	3,935	—	—	—	—	15,805	17,974
Intragroup revenues	31	39	2	2	—	—	(33)	(41)	—	—
Revenues by operating segment	12,905	14,078	2,933	3,937	—	—	(33)	(41)	15,805	17,974
Other income	200	225	11	708	—	—	—	—	211	933
Total revenues and operating income	13,105	14,303	2,944	4,645	—	—	(33)	(41)	16,016	18,907
Acquisition of goods and services	(5,129)	(5,042)	(1,070)	(1,450)	(3)	(6)	29	35	(6,173)	(6,463)
Employee benefits expenses	(2,401)	(2,753)	(236)	(323)	(1)	(1)	(1)	—	(2,639)	(3,077)
of which: accruals to employee severance indemnities	(1)	(7)	—	—	—	—	—	—	(1)	(7)
Other operating expenses	(639)	(1,099)	(318)	(523)	(5)	(2)	1	(1)	(961)	(1,625)
of which: write-downs and expenses in connection with credit management and provision charges	(334)	(825)	(132)	(249)	—	—	—	—	(466)	(1,074)
Change in inventories	(13)	(132)	8	5	—	—	(1)	(1)	(6)	(128)
Internally generated assets	416	431	79	97	—	—	7	9	502	537
EBITDA	5,339	5,708	1,407	2,451	(9)	(9)	2	1	6,739	8,151
Depreciation and amortization	(3,677)	(3,761)	(939)	(1,165)	—	(1)	—	—	(4,616)	(4,927)
Gains/(losses) on disposals of non-current assets	(19)	(60)	8	11	—	—	—	—	(11)	(49)
Impairment reversals (losses) on non-current assets	(8)	—	—	—	—	—	—	—	(8)	—
EBIT	1,635	1,887	476	1,297	(9)	(10)	2	1	2,104	3,175
Share of profits (losses) of associates and joint ventures accounted for using the equity method	18	(3)	—	—	—	—	—	—	18	(3)
Other income (expenses) from investments									454	3
Finance income									1,143	946
Finance expenses									(2,322)	(2,382)
Profit (loss) before tax from continuing operations									1,397	1,739
Income tax expense									5,955	(513)
Profit (loss) from continuing operations									7,352	1,226
Profit (loss) from Discontinued operations/Non-current assets held for sale									—	16
Profit/(Loss) for the year									7,352	1,242
Attributable to:										
Owners of the Parent									7,224	916
Non-controlling interests									128	326

Revenues by operating segment

(million euros)	Domestic		Brazil		Other activities		Adjustments and eliminations		Consolidated Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenues from equipment sales - third party	1,300	1,470	102	177	—	—	—	—	1,402	1,647
Revenues from equipment sales - intragroup	—	—	—	—	—	—	—	—	—	—
Total revenues from equipment sales	1,300	1,470	102	177	—	—	—	—	1,402	1,647
Revenues from services - third party	11,574	12,569	2,829	3,758	—	—	—	—	14,403	16,327
Revenues from services - intragroup	31	39	2	2	—	—	(33)	(41)	—	—
Total revenues from services	11,605	12,608	2,831	3,760	—	—	(33)	(41)	14,403	16,327
Total third-party revenues	12,874	14,039	2,931	3,935	—	—	—	—	15,805	17,974
Total intragroup revenues	31	39	2	2	—	—	(33)	(41)	—	—
Total revenues by operating segment	12,905	14,078	2,933	3,937	—	—	(33)	(41)	15,805	17,974

Purchase of intangible assets, tangible assets and rights of use assets by operating segment

(million euros)	Domestic		Brazil		Other activities		Adjustments and eliminations		Consolidated Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Purchase of intangible assets	1,004	871	193	193	—	—	—	—	1,197	1,064
Purchase of tangible assets	1,682	1,964	456	680	—	—	—	—	2,138	2,644
Purchase of rights of use assets	843	800	519	416	—	—	—	—	1,362	1,216
Total purchase of intangible assets, tangible assets and rights of use assets	3,529	3,635	1,168	1,289	—	—	—	—	4,697	4,924
<i>of which: capital expenditures</i>	<i>2,748</i>	<i>2,912</i>	<i>661</i>	<i>872</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>3,409</i>	<i>3,784</i>
<i>of which: increases in lease/leasing contracts for right-of-use assets</i>	<i>781</i>	<i>723</i>	<i>507</i>	<i>417</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>1,288</i>	<i>1,140</i>

Headcount by Operating Segment

(number of units)	Domestic		Brazil		Other activities		Consolidated Total	
	12.31.2020	12.31.2019	12.31.2020	12.31.2019	12.31.2020	12.31.2019	12.31.2020	12.31.2019
Headcount	42,925	45,496	9,409	9,689	13	13	52,347	55,198

Assets and liabilities by Operating Segment

(million euros)	Domestic		Brazil		Other activities		Adjustments and eliminations		Consolidated Total	
	12.31.2020	12.31.2019	12.31.2020	12.31.2019	12.31.2020	12.31.2019	12.31.2020	12.31.2019	12.31.2020	12.31.2019
Non-current operating assets	44,736	45,342	5,098	7,498	1	1	(1)	(1)	49,834	52,840
Current operating assets	3,755	3,964	845	1,166	19	6	(35)	(19)	4,584	5,117
Total operating assets	48,491	49,306	5,943	8,664	20	7	(36)	(20)	54,418	57,957
Investments accounted for using the equity method	2,728	11	—	—	—	—	—	—	2,728	11
Discontinued operations /Non-current assets held for sale									—	4,647
Unallocated assets									16,088	7,489
Total Assets									73,234	70,104
Total operating liabilities	10,535	10,645	1,191	1,739	29	38	(82)	(96)	11,673	12,326
Liabilities directly associated with Discontinued operations/Non-current assets held for sale									—	805
Unallocated liabilities									32,721	34,347
Equity									28,840	22,626
Total Equity and liabilities									73,234	70,104

b) Reporting by geographical area

(million euros)		Revenues				Non-current operating assets	
		Breakdown by location of operations		Breakdown by location of customers		Breakdown by location of operations	
		2020	2019	2020	2019	12.31.2020	12.31.2019
Italy	(a)	12,638	13,815	12,018	13,178	44,477	45,066
Overseas	(b)	3,167	4,159	3,787	4,796	5,357	7,774
Total	(a+b)	15,805	17,974	15,805	17,974	49,834	52,840

c) Information about major customers

None of the TIM Group's customers exceeds 10% of consolidated revenues.

NOTE 41

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, consolidated statements of financial position and consolidated statements of cash flows.

Related-party transactions, when not dictated by specific laws, were conducted at arm's length. They were performed in compliance with the internal procedure, which sets forth rules designed to ensure the transparency and fairness of the transactions in accordance with Consob Regulation 17221/2010. The current procedure is available on the website gruppotim.it, under the Group section/Governance System channel.

The effects of the related party transactions on the Group separate consolidated income statement line items for 2020 and 2019 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2020

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	% of financial statement item
	(a)					(b)	(b/a)
Revenues	15,805	90	4			94	0.6
Other operating income	211	1	—			1	0.5
Acquisition of goods and services	6,173	250	113			363	5.9
Employee benefits	2,639	—	—	73	16	89	3.4
Other operating expenses	961	2	—			2	0.2
Depreciation and amortization	4,616	39	—			39	0.8
Finance expenses	2,322	15	—			15	0.6

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2019

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	% of financial statement item
	(a)					(b)	(b/a)
Revenues	17,974	2	2			4	—
Acquisition of goods and services	6,463	6	141			147	2.3
Employee benefits	3,077	—	—	76	20	96	3.1

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

The effects of related party transactions on the Group separate consolidated statement of financial position line items at December 31, 2020 and 31 December, 2019, are as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS AT 12/31/2020

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	% of financial statement item
	(a)				(b)	(b/a)
Net financial debt						
Non-current financial liabilities for lease contracts	4,199	313	—		313	7.5
Current financial liabilities for lease contracts	631	50			50	7.9
Other statement of financial position line items						
Right of use assets	4,992	347			347	7.0
Trade and miscellaneous receivables and other current assets	4,346	57	4		61	1.4
Miscellaneous payables and other non-current liabilities	3,602	2	1		3	0.1
Trade and miscellaneous payables and other current liabilities	6,588	101	40	22	163	2.5

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS AT 12/31/2019

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	% of financial statement item
	(a)				(b)	(b/a)
Net financial debt						
Non-current financial liabilities for lease contracts	4,576	—	1		1	—
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	4,857	2	6		8	0.2
Miscellaneous payables and other non-current liabilities	3,214	—	1		1	—
Trade and miscellaneous payables and other current liabilities	7,218	4	34	23	61	0.8

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

The effects of the related party transactions on the significant Group consolidated statements of cash flows line items for 2020 and 2019 are as follows:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2020

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	% of financial statement item
	(a)				(b)	(b/a)
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis	4,697	378	—		378	8.0
Dividends paid	390		36		36	9.2

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2019

(million euros)	Total	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	% of financial statement item
	(a)				(b)	(b/a)
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis	4,924	2	—		2	0.0

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

Transactions with associates, subsidiaries of associates and joint ventures

The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	TYPE OF CONTRACT
Revenues			
INWIT S.p.A.	89		Voice and data transmission services for company use, Desktop Management ICT services, IRU transfer of Dark Optic Fiber and Local Infrastructure, Easy IP ADSL service, small cell design and construction services, property leasing, site maintenance, electricity supply and administrative outsourcing (for the period April-December 2020).
NordCom S.p.A.	1	1	Fixed and mobile voice services, equipment, data network connections and outsourcing.
Other minor items	—	1	The amount shown in 2019 included, in addition to the minor companies, Asscom S.r.l., which was sold in June 2020.
Total revenues	90	2	
Other operating income	1	—	
Acquisition of goods and services			
INWIT S.p.A.	242		Supply of services for BTS sites, such as the provision of passive infrastructure and power supply systems, monitoring and security services (alarms), management and maintenance services
W.A.Y. S.r.l.	6	5	Supply, installation and technical assistance services for geolocation equipment provided as part of offers to TIM customers, developments of the CCS software platform dedicated to TIM's Company Car Sharing service.
Other minor companies	2	1	
Total Acquisition of goods and	250	6	
Other operating expenses	2		Penalties for breach of contract on maintenance management services to INWIT S.p.A. (for the period April-December 2020)
Depreciation and amortization	39		Amortization of rights of use related to the recognition of greater non-current assets amortized over the residual contractual term, towards INWIT S.p.A. (for the period April-December 2020)
Finance expenses	15		Finance expenses for interest related to financial liabilities for rights of use granted to INWIT S.p.A. (for the period April-December 2020)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	TYPE OF CONTRACT
Net financial debt			
Non-current financial liabilities	313		Non-current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A.
Current financial liabilities	50		Current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A.
Other statement of financial position line items			
Right of use assets	347		Rights of use related to the recognition of greater non-current assets amortized over the residual contractual term, towards INWIT S.p.A.
Trade and miscellaneous receivables and other current assets			
INWIT S.p.A.	55		Voice and data transmission services for company use, Microsoft licenses, supply of apparatus, evolved hosting, Desktop Management ICT services, Vai services and SAP maintenance, email assistance, IoT platform implementation and management, SAG security services for the judicial authorities, IRU transfer of Dark Optic Fiber and Local Infrastructure, Easy IP ADSL service, small cell design and construction services, property leasing, administrative outsourcing and dividends to collect.
W.A.Y. S.r.l.	2	2	Deferred costs for supply of customized platforms, application offers and fixed and mobile voice services.
Total trade and miscellaneous receivables and other current assets	57	2	
Miscellaneous payables and other non-current liabilities	2		Deferred contractual revenues from INWIT S.p.A.
Trade and miscellaneous payables and other current liabilities			
INWIT S.p.A.	98		Supply of services for BTS sites, monitoring and security services, management and maintenance services.
Movenda S.p.A.	1	1	Supply and certification of SIM-cards, software systems.
W.A.Y. S.r.l.	2	2	Supply, installation and technical assistance services for geolocation equipment provided as part of offers to TIM customers, developments of the CCS software platform dedicated to TIM's Company Car Sharing
Other minor companies	—	1	
Total trade and miscellaneous payables and other current liabilities	101	4	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(million euros)	2020	2019	TYPE OF CONTRACT
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis			
INWIT S.p.A.	376		Higher value of rights of use as a result of new contracts or changes in existing lease contracts (for the period April-December 2020)
Movenda S.p.A.	1	1	Supply and development systems software.
Other minor items	1	1	
Total purchase of intangible, tangible and rights of use assets on an accrual basis	378	2	

At December 31, 2020, TIM S.p.A. issued guarantees in favor of the joint venture Alfiere S.p.A. for 14 million euros.

Transactions with other related parties (both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance)

Details are provided below of the transactions with:

- Vivendi Group and the companies of the group that it belongs to (as a result of the resolutions of the Board of Directors of TIM S.p.A. of May 3 and June 1, 2017);
- Related companies through Directors appointed on May 4, 2018;
- Related companies through Directors whose term of office ended on May 4, 2018;

The most significant amounts are summarized as follows:

(million euros)	2020	2019	TYPE OF CONTRACT
Revenues			
Other Directors or through	3	1	Fixed-line and mobile voice services and devices.
Havas Group	—	1	Fixed and mobile phone services.
Vivendi group	1		Circuit rental services and feasibility study for routing and submarine cable interface solutions in America.
Total revenues	4	2	
Acquisition of goods and services			
Havas Group	109	137	Purchase of media space on behalf of the TIM Group and, to a lesser extent, development and delivery of advertising campaigns.
Vivendi group	4	4	Purchase of musical and television digital content (TIMmusic and TIMvision) and supply of D&P cloud-based games (TIMgames).
Total Acquisition of goods and	113	141	

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	TYPE OF CONTRACT
Net financial debt			
Non-current financial liabilities	—	1	Non-current financial liabilities related to the recognition of rights of use for lease liabilities

(million euros)	12.31.2020	12.31.2019	TYPE OF CONTRACT
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Other Directors or through	3	1	Fixed-line and mobile voice services and devices.
Havas Group	—	4	Prepaid expenses related to costs for advertising
Vivendi group	1	—	TV series rights.
Other minors		1	
Total trade and miscellaneous receivables and other current assets	4	6	
Miscellaneous payables and other non-current liabilities	1	1	Deferred income for IRU sale to the Vivendi group.
Trade and miscellaneous payables and other current liabilities			
Other Directors or through	1	—	
Havas Group	37	33	Purchase of media space on behalf of the TIM Group and, to a lesser extent, development and delivery of advertising campaigns.
Vivendi group	2	1	Purchase of musical and television digital content (TIMmusic and TIMvision) and supply of D&P cloud-based games (TIMgames).
Total trade and miscellaneous payables and other current liabilities	40	34	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(million euros)	2020	2019	TYPE OF CONTRACT
Dividends paid			
Vivendi group	36		
Total Dividends paid	36		

Transactions with pension funds

The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	TYPE OF CONTRACT
Employee benefits expenses			Contributions to pension funds.
Fontedir	9	7	
Telemaco	60	65	
Other pension funds	4	4	
Total Employee benefits expenses	73	76	

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	TYPE OF CONTRACT
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds.
Fontedir	3	3	
Telemaco	19	20	
Other pension funds	—	—	
Total trade and miscellaneous payables and other current liabilities	22	23	

Remuneration to Key Managers

In 2020, the total remuneration recorded on an accrual basis by TIM or by Group subsidiaries in respect of key managers amounted to 16.0 million euros (20 million euros in 2019). The figure breaks down as follows:

(million euros)	2020	2019
Short-term remuneration	11.1 ⁽¹⁾	11.9 ⁽³⁾
Long-term remuneration	—	0.3 ⁽⁴⁾
Employment termination benefit incentives	2.3	5.6 ⁽⁵⁾
Share-based payments (*)	2.6 ⁽²⁾	2.2
Total	16.0	20.0

⁽¹⁾ These refer to the fair value of the rights, accrued to December 31, under the share-based incentive plans of TIM S.p.A. and its subsidiaries (Long Term Incentive and Plans of the subsidiaries).

⁽²⁾ of which 1.0 million euros recorded by the subsidiaries;

⁽³⁾ of which 0.4 million euros recorded by the subsidiaries;

⁽⁴⁾ of which 1.2 million euros recorded by the subsidiaries;

⁽⁵⁾ of which 0.3 million euros recorded by the subsidiaries;

⁽⁶⁾ of which 1.0 million euros recorded by the subsidiaries.

Short-term remuneration is paid during the period it pertains to, and, at the latest, within the six months following the end of that period and, in 2020, do not include the effects of the reversal of the accruals related to the 2019 costs amounting to -0.6 million euros.

Long-term remuneration, at December 31, 2019, does not include the effects of the reversal of the accruals related to the 2018 costs of -0.5 million euros.

The indemnities for early termination of employment, as at December 31, 2019, do not include the effects of the reversal of the accruals relating to 2018 costs amounting to approximately -0.2 million euros.

The share-based payments at December 31, 2019, do not include the effects of the reversal of the accruals related to the 2018 costs of the LTI 2018/2020 of -0.4 million euros.

In 2020, the contributions paid in to defined contribution plans (Assida and Fontedir) by TIM S.p.A. or by subsidiaries of the Group on behalf of key managers, amounted to 135,000 euros (141,000 euros at December 31, 2019).

In 2020, "Key managers", i.e. those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the TIM Group, including directors, were the following:

Directors:

Luigi Gubitosi	Managing Director and Chief Executive Officer of TIM S.p.A. General Manager

Executives:

Pietro Labriola	Diretor Presidente Tim S.A.
Lorenzo Forina	⁽¹⁾ Chief Revenue Office
Federico Rigoni	⁽²⁾
Michele Gamberini	Chief Technology & Information Officer
Stefano Grassi	Head of Security
Luciano Sale	Head of Human Resources, Organization & Real Estate
Giovanni Gionata Massimiliano Moglia	Chief Regulatory Affairs & Wholesale Market Office
Carlo Nardello	Chief Strategy, Customer Experience & Transformation Office
Agostino Nuzzolo	Head of Legal and Tax
Giovanni Ronca	Chief Financial Office
Elisabetta Romano	⁽⁴⁾ Chief Innovation & Partnership Office
Federico Rigoni	⁽¹⁾ Head of Procurement
Nicola Grassi	⁽³⁾
Stefano Siragusa	Chief Operations Office

⁽¹⁾ to February 4, 2020;

⁽²⁾ from February 5, 2020

⁽³⁾ from March 16, 2020

⁽⁴⁾ to August 05, 2020.

NOTE 42

EQUITY COMPENSATION PLANS

Equity compensation plans in place at December 31, 2020 are used for retention purposes and to offer long-term incentives to Group managers and personnel.

A summary is provided below of the plans in place at December 31, 2020.

Description of stock option plans

With regard to the 2014-2016 Stock Option Plan of TIM S.p.A., already in place at December 31, 2019, the exercise period ended on March 24, 2020 and all assigned, but not exercised, options lapsed.

TIM S.A. (formerly Tim Participações S.A.) Stock Option Plan

On April 10, 2014, the General Meeting of Shareholders of Tim Participações S.A. (now incorporated into TIM 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.

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. At December 31, 2020, there are no options that can be exercised. Out of the total attributed, 1,558,043 options have been canceled, due to withdrawal of the participants from the company or for having reached the maturity of 6 years, and 129,643 options have been exercised.

Year 2015

On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3,355,229 shares. At December 31, 2020, 100% of the options were considered as vested. Of the total options granted, 1,646,080 were canceled by participants leaving the company. Of the remaining balance of 1,709,149 options, 1,687,378 options had been exercised and 21,771 could still be exercised.

Year 2016

On November 8, 2016, the grantees of the options were granted the right to purchase a total of 3,922,204 shares.

At December 31, 2020, 100% of the options were considered as vested. Of the total options granted, 1,727,424 were canceled by participants leaving the company. Of the remaining balance of 2,194,780 options, 1,899,717 options had been exercised and 295,063 could still be exercised.

Description of other equity compensation plans

TIM S.p.A. - Special Award 2016 – 2019

As required by the Regulations, following the approval of the Financial Statements for 2019, the premiums accrued under the Plan were liquidated. Therefore, in April 2020, a cash bonus of a total of 486,000 euros (20% of the accrued bonus) was paid to the recipients and a total of 2,492,305 ordinary shares (80% of the accrued premium) was assigned.

TIM S.p.A. - Long Term Incentive Plan 2018-2020

The Plan, approved by the Shareholders' Meeting of Telecom Italia S.p.A. of April 24, 2018, provided for a three-year vesting period (2018-2020) and the bonus allocation of Telecom Italia S.p.A. ordinary shares subject to the achievement of two performance conditions, as assessed by the Board of Directors when approving the TIM Group's consolidated financial statements at December 31, 2020:

- average performance of TIM ordinary shares versus the average market performance of a peer basket in the quarters preceding the start and the end of the period (70% weighting). The peer basket consists of the following Companies: Deutsche Telekom AG, Vodafone Group PLC, Telefonica SA, Orange SA, BT Group PLC, Telenor ASA, Swisscom AG, Telia Co AB, Koninklijke KPN NV, Proximus SADP, Elisa OYJ;

- cumulative equity free cash flow over the period 2018-2020 (30% weighting). This parameter is linked to the generation of cash flow, understood as net cash flow before dividends and investments in frequencies. Represents the Free Cash Flow available for the payment of dividends, the repayment of the debt, the impact of IAS 17 (finance leases) and the investment in frequencies, and do not include the financial impact of any acquisition and/or disposal of equity investments (M&A).

The Plan had two grants: a first grant reserved to the Chief Executive Officer, serviced by a maximum of 30,000,000 shares; and the second grant for a select number of Group management (serviced by a maximum of 55,000,000 shares).

Following final calculation of the results of the 2018-2020 three-year vesting period, the levels will be determined for achieving the two parameters indicated, thereby quantifying any maturity of quota of the premium in shares.

TIM S.p.A. - Long Term Incentive Plan 2020-2022

The Shareholders' Meeting of April 23, 2020 approved the launch of the new rolling and equity based long-term incentive plan called LTI 2020-2022. On May 18, 2020, the Board of Directors subsequently launched the first cycle of the new Plan, for the three-year period 2020-2022, simultaneously assigning it to the CEO.

The first cycle is aimed at around 147 TIM Group staff: the CEO, Top Management and a selected segment of TIM Group management.

Each cycle of the plan is divided into two parties:

- **Performance Share:** free allocation of Company ordinary shares whose maturity is subject to an access gate linked to the value of the share and to two share and industrial performance conditions, shown below.
- **Attraction/Retention Share:** free allocation of Company ordinary shares, the maturity of which is subject to the continuity of the employment relationship with TIM or TIM Group companies.

In relation to the Performance Share component, the performance conditions are as follows:

- access gate, represented by the value of the security, which at the end of each cycle must be equal to or greater than the value of the security at the start of the same cycle (refer to the normal value of the share equal to the average of the official closing prices of the Stock Exchange 30 days prior to the start and end of the Plan cycle);
- NFP/EBITDA ratio, with relative weighting equal to 40%;
- relative performance (TSR) of the ordinary share compared to a basket of Peers, with a relative weighting of 60%.

A payout bonus/malus mechanism equal to 4% will be applied to both components (Performance Share and Attraction/Retention Share), linked, in equal measure, to the % growth of use of renewable energy out of total energy and to the reduction of indirect CO2 emissions.

For the CEO, 100% of the pay opportunity is linked to the Performance Share component. For the remaining recipient managers, 70% of the Pay Opportunity is linked to the Performance Share and the remaining 30% to the Attraction/Retention Shares.

TIM S.p.A. – Broad-Based Share Ownership Plan 2020

In implementation of the resolutions passed on April 23, 2020 by the Extraordinary Shareholders' Meeting, and on May 18, 2020 by the Board of Directors of Telecom Italia S.p.A., the campaign for the 2020 Broad-Based Share Ownership Plan was commenced on June 16, 2020.

The aim of the Plan was to give Group employees the option to invest in Company shares, to increase their motivation to achieve corporate objectives and to strengthen their sense of belonging to the business.

The 2020 Broad-Based Share Ownership consisted of an offer to subscribe to ordinary shares of the Company, for cash, at a discounted price compared to the market price, reserved for employees of the Company or its Italy-based subsidiaries, excluding "Top Managers".

Employees who hold the subscribed shares for a period of one year following assignment, subject to their retaining the status of employees, shall receive ordinary shares of the Company free of charge allotted to them at a ratio of 1 free share (the "Bonus Share") for every 3 shares subscribed for cash.

There were two alternative and supplementary payment methods envisaged by which to subscribe the shares: payment in cash by bank transfer and/or advance on Employee Severance Indemnity.

To service the initiative, a maximum of 127,500,000 new shares were to be issued, to be offered for paid subscription and, subsequently, a maximum 42,500,000 new shares, without capital increase, for the free allocation of 1 Bonus Share for every 3 subscribed shares.

The shares were offered from June 16 to October 30, 2020; the shares were subscribed at the unit price of 0.31 euros, corresponding to the mathematical average of the official prices recorded from May 17, 2020 to June 15, 2020, with a 10% discount.

On November 27, 2020, 126,343,913 Telecom Italia ordinary shares were issued to subscribers. In compliance with said shareholders' meeting resolution, the issue of the new shares did not result in a share capital increase and the related equivalent value of subscription was allocated to the share premium reserve.

TIM S.A. (formerly Tim Participações S.A.) – 2018-2020 Long-Term Incentive Plan

On April 19, 2018, the General Meeting of Shareholders of Tim Participações S.A. (now incorporated into TIM S.A.) approved the long-term incentive plan for managers in key positions in the company. The plan aims to reward participants with shares issued by the company, subject to specific time and performance conditions (upon reaching specific targets). The vesting period is 3 years (annual measurement) 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 (restricted share).

The plan – in addition to transferring shares to beneficiaries – also includes the possibility of rewarding participants through the settlement of the amount corresponding in cash.

Year 2018

On April 20, 2018, plan beneficiaries were granted the right to receive a total of 849,932 shares, of which 594,954 performance shares restricted to performance conditions and with gradual vesting over 3 years and 254,978 restricted shares, with a total vesting period of 3 years.

At December 31, 2020, the first and second vesting periods of the program's performance shares, had ended:

- **First vesting period:** in compliance with the results approved on May 29, 2019, 115,949 shares were transferred to beneficiaries, of which 91,708 relating to the original volume accrued, 20,594 granted according to the degree to which objectives had been achieved and 3,647 shares as a result of the dividends distributed during the period. For participants transferred to other Group companies, as per the Plan rules, payment in cash was considered of the amount corresponding to 3,685 shares (2,915 relative to the original volume accrued, 654 acknowledged according to the degree to which the objectives had been achieved and 116 due to dividends distributed during the period).
- **Second vesting period:** in compliance with the results approved on June 17, 2020, 87,766 shares were transferred to beneficiaries, of which 83,181 relating to the original volume accrued, 70 discounted according to the degree to which objectives had been achieved and 4,655 shares for dividends distributed during the period. For participants transferred to other Group companies, as per the Plan rules, payment in cash was considered of the amount corresponding to 3,084 shares (2,915 relative to the original volume accrued, 5 acknowledged according to the degree to which the objectives had been achieved and 164 due to dividends distributed during the period).

At December 31, 2020, of the total assigned of 849,932 shares, 469,619 had been canceled due to the beneficiaries having left the participating company, 203,715 shares had been transferred to beneficiaries (174,889 relative to the original volume accrued, 20,524 from performance achieved and 8,302 for payment of dividends in shares) and 6,769 shares had been valued and paid in cash (5,830 relative to the original volume accrued, 659 from performance achieved and 280 for payment of dividends in shares), thereby leaving a balance of 199,594 shares that could be accrued at period end.

Year 2019

On July 30, 2019, plan beneficiaries were granted the right to obtain a total of 930,662 shares, of which 651,462 performance shares restricted to performance conditions and with gradual vesting over 3 years and 279,200 restricted shares, obtain total vesting period of 3 years.

At December 31, 2020, the first vesting period of the performance shares had ended:

- **First vesting period:** in compliance with the results approved on July 29, 2020, 309,557 shares were transferred to beneficiaries, of which 209,349 relating to the original volume accrued, 83,672 acknowledged according to the degree to which objectives had been achieved and 16,536 shares as a result of the dividends distributed during the period.

At December 31, 2020, of the total assigned of 930,662 shares, 33,418 had been canceled due to the beneficiaries having left the participating company and 309,557 shares had been transferred to beneficiaries (of which 209,349

for accrual, 83,672 from performance achieved and 16,536 for payment of dividends in shares), thereby leaving a balance of 687,895 shares that could be accrued at period end.

Year 2020

On April 14, 2020, plan beneficiaries were granted the right to receive a total of 796,054 shares, of which 619,751 performance shares restricted to performance conditions and with gradual vesting over 3 years and 176,303 restricted shares, with a total vesting period of 3 years.

As at December 31, 2020, the first vesting period has not yet finished.

Calculation of fair value measurement of the granted options and rights

Parameters used to determine the fair value – TIM S.p.A.

Plans/Parameters	Exercise price (euros)	Nominal value (euros)	Volatility (2)	Duration	Expected dividends (euros)	Risk-free interest rate (4)
LTI Plan 2018-2020 - equity component	-	0.63	n.a.	3 years	-	-0.552% at 3 years
LTI Plan 2018-2020 - equity component (two-year CEO granting)	-	0.51	n.a.	2 years	-	-0.594% at 2 years
LTI 2018 – 2020 Plan – equity component (two-year allocations)	-	0.48	n.a.	2 years	-	-0.569% at 2 years
LTI 2018 – 2020 Plan – equity component (two-year allocations)	-	0.48	n.a.	2 years	-	-0.570% at 2 years
LTI Plan 2020-2022	-	0.35	n.a.	3 years	0.01	-0.714% at 3 years
Broad-Based Share Ownership Plan 2020	-	0.333861	n.a.	1 year	0.01	-0.699% at 1 year

- (1) Arithmetic mean of the official prices of the Shares recognized starting from the stock market trading day prior to that of assignment until the thirtieth previous ordinary calendar day (both included) on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A., calculated using only the days to which the prices taken as the basis of calculation refer as the divisor, cut off at the second decimal.
- (2) Based on the performance objectives of the plan, the TIM share volatility values were considered and, if necessary, also those of the securities of the major companies of the telecommunications sector ("peer basket").
- (3) Dividends have been estimated on the basis of Bloomberg data.
- (4) The risk-free interest rate refers to the rate of government securities of the Federal Republic of Germany (market benchmark for transactions in euros) with due date consistent with the period of reference at the valuation date.

Parameters used for the assignments of TIM S.A. (formerly Tim Participações S.A.)

Plans/Parameters	Share base price (euros)	Nominal value (reais)	Volatility	Duration	Expected dividends (reais)	Risk-free interest rate
Stock option plan 2011	8.84	n.a.	51.73%	6 years	-	11.94% per
Stock option plan 2012	8.96	n.a.	50.46%	6 years	-	8.89% per
Stock option plan 2013	8.13	n.a.	48.45%	6 years	-	10.66% per
Stock option plan 2014	13.42	n.a.	44.60%	6 years	-	10.66% per
Stock option plan 2015	8.45	n.a.	35.50%	6 years	-	16.10% per
Stock option plan 2016	8.10	n.a.	36.70%	6 years	-	11.73% per
2018 PS/RS Plan	n.a.	14.41	n.a.	3 years	n.a.	n.a.
2019 PS/RS Plan	n.a.	11.28	n.a.	3 years	n.a.	n.a.
2020 PS/RS Plan	n.a.	14.40	n.a.	3 years	n.a.	n.a.

The parameters are characteristic of a stock option plan, considering the use of fair value appropriate only for Stock Option Plans.

Effects on the income statement and statement of financial position

Equity compensation plans which call for payment in equity instruments are recorded at fair value (except for the 2018 Plan of TIM Participações) which represents the cost of such instruments at the grant date and is recorded in the separate income statements under "Employee benefits expenses" over the period between the grant date and the vesting period with a contra-entry to the equity reserve "Other equity instruments". 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". Equity compensation plans which call for payment in equity instruments did not have significant impacts either on the income statements or the statements of financial position or of cash flows of the TIM Group at December 31, 2020.

NOTE 43

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The effect of 2020 non-recurring events and transactions on the equity, profit, net financial debt and cash flows of the TIM Group is set out below in accordance with Consob Communication DEM/6064293 of July 28, 2006. The non-recurring effects on Equity and Profit (loss) for the year are shown net of tax effects.

(million euros)

(million euros)	Equity	Profit (loss) for the year	Net financial debt carrying amount	Cash flows (*)	
Carrying amount	(a)	28,840	7,352	23,714	1,465
Revenue adjustments		(28)	(28)	—	—
Other operating income		1	1	(22)	22
Acquisition of goods and services - Expenses related to agreements and the development of non-recurring projects and other costs		(46)	(46)	47	(47)
Employee benefits expenses - Charges related to corporate reorganization/restructuring and other charges		(52)	(52)	360	(360)
Other operating expenses - Expenses related to disputes and regulatory sanctions and potential liabilities related to them, and expenses related to disputes with former employees and liabilities with customers and/or suppliers for other provisions and charges		(110)	(110)	245	(245)
Other income (expenses) from investments		411	411	(1,286)	638
Miscellaneous finance expenses		(5)	(5)	—	—
Tax realignment pursuant to Decree Law 104/2020 Art. 110		5,877	5,877	—	—
Total non-recurring effects	(b)	6,048	6,048	(656)	8
Income/(Expenses) relating to Discontinued operations	(c)	—	—	—	—
Figurative amount – financial statements	(a-b-c)	22,792	1,304	24,370	1,457

(*) Cash flows refer to the increase (decrease) in Cash and cash equivalents during the year.

The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(million euros)	2020	2019
Revenues:		
Revenue adjustments	(39)	(15)
Other operating income:		
Brazil Business Unit Tax recovery and Domestic Business Unit operating expenses recovery effect	—	706
Other operating provisions absorption	1	—
Acquisition of goods and services, Change in inventories:		
Professional expenses, consulting services and other costs	(64)	(21)
Employee benefits expenses:		
Charges connected to corporate reorganization/restructuring and other processes	(74)	(282)
Other operating expenses:		
Other charges and provisions	(148)	(459)
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	(324)	(71)
Gains/(losses) on disposals of non-current assets:		
Sale of Persidera S.p.A. (Domestic BU)	—	(18)
Impact on EBIT - Operating profit (loss)	(324)	(89)
Other income (expenses) from investments:		
Net capital gain on INWIT transactions	452	—
Net gains on the sale of investments in associates and joint ventures accounted for using the equity method	—	1
Finance expenses:		
Miscellaneous finance expenses	(7)	(34)
Impact on profit (loss) before tax from continuing operations	121	(122)
Tax realignment pursuant to Decree Law 104/2020 Art. 110	5,877	—
Income taxes on non-recurring items	50	(40)
Income/(Expenses) relating to Discontinued operations	—	16
Impact on Profit (loss) for the year	6,048	(146)

The COVID-19 emergency, following the spread of the SARS-CoV-2 virus and pronounced a pandemic by the World Health Organization (WHO) on March 11, 2020, resulted in the TIM Group incurring non-recurring expenses, gross of tax effects, for a total of 108 million euros. Adjustments booked of non-recurring revenues in 2020 (38 million euros) were connected with the commercial initiatives of TIM S.p.A. to support customers in dealing with the COVID-19 emergencies. In addition to the impacts of TIM S.p.A.'s commercial initiatives to support customers, operating costs have been incurred mainly in relation to provisions and expenses connected with the management of credits deriving from the worsening of the macroeconomic context (46 million euros), payroll costs (7 million euros), as well as miscellaneous costs and procurement for approximately 17 million euros, as have become necessary to handle the health emergency, primarily for the purchase of Personal Protective Equipment, thermoscanners and environmental hygiene services.

For more details on the tax realignment, see the Note on "Income tax (current and deferred)".

NOTE 44

POSITIONS OR TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2020 the TIM Group did not pursue any atypical and/or unusual transactions, as defined by that Communication.

NOTE 45

OTHER INFORMATION

a) Exchange rates used to translate the financial statements of foreign operations ^(*)

(local currency against 1 euro)		Year-end exchange rates (statements of financial position)		Average exchange rates for the year (income statements and statements of cash)	
		12.31.2020	12.31.2019	2020	2019
Europe					
BGN	Bulgarian Lev	1.95580	1.95580	1.95580	1.95580
CZK	Czech koruna	26.24200	25.40800	26.45640	25.66928
CHF	Swiss franc	1.08020	1.08540	1.07047	1.11263
TRY	Turkish lira	9.11310	6.68430	8.04599	6.36122
GBP	Pound sterling	0.89903	0.85080	0.88940	0.87750
RON	Romanian leu	4.86830	4.78300	4.83817	4.74547
RUB	Russian ruble	91.46700	69.95600	82.66883	72.45046
North America					
USD	U.S. dollar	1.22710	1.12340	1.14179	1.11954
Latin America					
VES	Venezuelan bolivar - Soberano	1356945.08	52,308.38000	375,274.05000	14,692.87000
BOB	Bolivian Boliviano	8.47930	7.76270	7.88964	7.73599
PEN	Peruvian nuevo sol	4.44260	3.72550	3.99284	3.73612
ARS	Argentine peso	103.24940	67.27490	80.83685	53.80911
CLP	Chilean peso	872.52000	844.86000	902.97084	786.86284
COP	Colombian peso	4,202.34000	3,688.66000	4,215.45981	3,673.62602
BRL	Brazilian real	6.37680	4.52808	5.88806	4.41422
Other countries					
ILS	Israeli shekel	3.94470	3.88450	3.92462	3.99076
NGN	Nigerian Naira	465.68500	344.32200	407.22874	343.07080

^(*) Source: data processed by the European Central Bank, Reuters and major Central Banks.

b) Research and development

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

(million euros)	2020	2019
Research and development costs expensed during the year	79	55
Capitalized development costs	1,043	1,111
Total research and development costs (expensed and capitalized)	1,122	1,166

The decrease recognized in 2020 was mainly due to the completion of the engineering and deployment and development activities conducted on the LTE and NGAN networks, which have now reached maturity, partially offset by greater implementation activities related to the new generation 5G network.

In the 2020 Separate Consolidated Income Statement, a total of 910 million euros of amortization expense was recorded for development costs, capitalized during the year and in prior years.

Research and development activities carried out by the TIM Group are described in detail in the Report on Operations ("Research and Development" section).

c) Leasing income

The TIM Group has entered into lease contracts on land and buildings for office and industrial use, mobile network infrastructure sites and network infrastructure; at December 31, 2020 and at December 31, 2019, the lease installments at nominal value still to be collected totaled:

(million euros)	12.31.2020	12.31.2019
Within 1 year	154	147
From 1 to 2 years after the end of the reporting period	74	113
From 2 to 3 years after the end of the reporting period	62	87
From 3 to 4 years after the end of the reporting period	56	59
From 4 to 5 years after the end of the reporting period	54	46
Beyond 5 years after the end of the reporting period	54	76
Total	454	528

d) Public funds

Italian Law 124/2017 requires that information on subsidies, contributions, paid assignments and economic benefits of any kind received from Italian public administrations be provided. In this regard, the following table shows the disbursements collected by the TIM Group in the years 2020 and 2019:

Distributing entity	Area of intervention	Received in 2020 (million euros)	Received in 2019 (million euros)
Fondimpresa/Fondirigenti	training	1	4
Infratel	construction of Broadband and ultrabroadband	24	28
MUR (formerly MIUR)	research projects	3	2
Sundry income (*)	innovation and digital divide	1	—
Total		29	34

(*) 2020 – MED; Region of Lombardy, Region of Apulia

2019 – Ministry of Economic Development (MISE); Ministry of the Economy and Finance (MEF); Lazio Region; Piedmont Region; Veneto Region; Autonomous Province of Trento.

e) Directors' and statutory auditors' remuneration

Total remuneration due for 2020 to the directors and statutory auditors of TIM S.p.A. for the performance of these functions at the Parent and in other consolidated companies totaled 4.179 million euros for directors and 0.575 million euros for statutory auditors. In reference to the compensation to which the Directors are entitled, it should be noted that the amount was calculated by considering only compensation for corporate offices (in primis those under Article 2389, paragraphs 1 and 3 of the Italian Civil Code), thus excluding amounts relating to any employment relationship with the companies of the Group and any non-monetary fringe benefits; for a complete and detailed description of the compensation paid to the directors, reference should be made to the Compensation Report, available at the Company's headquarters and on the corporate website at the following address: gruppotim.it/assemblea.

f) Summary schedule of fees due to the audit firm and other firms in its network

The following schedule reports the fees due to EY S.p.A. and to the other firms in the EY network for the audit of the 2020 financial statements, and the fees referring to 2020 for other audit and review services, and for other services besides audit rendered to the companies of the TIM Group from EY S.p.A. and other firms in the EY network. The out-of-pocket expenses incurred for these services in 2020 are also shown.

(euros)	EY S.p.A.			Other entities of the EY network			Total EY network
	TIM S.p.A.	Subsidiary Companies	TIM Group	TIM S.p.A.	Subsidiary Companies	TIM Group	
Audit services	2,927,874	1,151,770	4,079,644	—	1,538,677	1,538,677	5,618,321
Auditing services with the issue of certification	40,000	20,000	60,000	—	92,773	92,773	152,773
Certification of compliance of the Consolidated Non-Financial Statement	72,000	—	72,000	—	15,268	15,268	87,268
Other services	110,000	—	110,000	—	—	—	110,000
Total 2020 fees due for auditing and other services to the EY network	3,149,874	1,171,770	4,321,644	—	1,646,718	1,646,718	5,968,362
Out-of-pocket expenses	30,158	36,205	66,363	—	70,590	70,590	136,953
Total	3,180,032	1,207,975	4,388,007	—	1,717,308	1,717,308	6,105,315

Please also note that in FY 2020, additional auditing costs were booked for FY 2019 in the amount of 585,000 euros for EY S.p.A. due to exceptional events that could not have been foreseen when drafting the original contractual offer (of which 550,000 euros for TIM S.p.A. and 35,000 euros for TI Sparkle S.p.A.) due to exceptional events that could not be foreseen in the original contractual offer. A substantial disclosure was given about these additional costs in the Shareholders' Meeting of TIM for the 2019 financial statements, held on April 23, 2020.

NOTE 46

EVENTS SUBSEQUENT TO DECEMBER 31, 2020

TIM: first Sustainability Bond placed with a maturity of 8 years

On January 11, 2021, TIM successfully completed the issue of its inaugural 1 billion euros Sustainability Bond, with an 8-year maturity, set to increase the Group's energy efficiency and finance Green and Social projects. Demand was above 4 billion euros demonstrating TIM's strong positioning on the international markets also in light of the presentation to the financial community, in December 2020, of the Sustainability Financing Framework which involved over 40 institutional investors.

TIM priced its bond well below the secondary market of reference, setting the annual coupon at 1.625%, the lowest ever. This transaction also sees TIM extend the average debt maturity and raise new funds for the amount exceeding the 2021 deadlines.

The proceeds of the new issue will be used to transform the copper network into fiber, which is expected to deliver significant energy efficiency. Moreover, for the first time in Italy a corporation will invest part of the funds collected into projects with social value, as envisaged in the Sustainability Financing Framework.

Issuer: TIM S.p.A.

Amount: 1 billion euros

Settlement date: 1/18/2021

Maturity: 1/18/2029

Annual coupon: 1.625%

Issue price: 99.074%

Redemption price: 100.000%.

Noovle S.p.A., the biggest cloud project for Italy

On January 25, 2021 TIM announced the birth of Noovle S.p.A., the new company wholly owned by the TIM Group intended to become an Italian center of excellence for Cloud and edge computing, boosting the offer of TIM's innovative public, private and hybrid cloud services to businesses - from SMEs to large industry - and public administration, accelerating the digital transformation of the country.

The cloud company, which is the result of the experience and digital skills of the TIM Group, its associated Data Centers and the specialised professionalism of Noovle S.r.l., a company acquired by TIM in May 2020 and one of the main Google Cloud partners in the Italian market, will focus on the supply of innovative and bespoke Multicloud services and solutions to TIM customers, ranging from the management of network infrastructure in its Data Centers, to design and support services, migration to the cloud and support for the related management activities, using the most advanced technologies based on artificial intelligence and the Internet of Things. The services offered will allow customers to face the challenges of the digital transformation and improve the user experience. Noovle wants to support companies in their cloud transformation projects and therefore bring innovation to the world of work and the digital experience. All these services will have security at their core.

Thanks to a proprietary network of 17 state-of-the-art Data Centers distributed across the country - built according to the most advanced technological and safety standards and the most recent environmental sustainability best practices, in compliance with the Group's ESG objectives - the company will offer innovative resources and services to manage servers, data and information in a secure cloud environment located in Italy.

In particular, TIM will entrust Noovle with the task of building six new Data Centers specialised in the provision of public and hybrid cloud services, with TIER IV certification, and managing seven Core Data Centers and four service centers, already in operation, for the widest range of IT solutions, located across the country, from which TIM's Cloud, hybrid Cloud and Multicloud services are provided. A cutting-edge infrastructure that will cover a total area of over 50,000 square meters nationally by 2022, with a capacity of up to 100 MW of usable IT power, closely integrated with TIM's primary fiber optic network to ensure a structural reduction of interconnection latency between services.

Noovle starts with around 1,000 professionals and estimates that it will achieve a turnover of 1 billion euros in 2024 with an average annual growth rate of around 20% and an expected EBITDA of around 400 million euros.

The strategic decision to concentrate TIM's cloud services in Noovle is part of a bigger program of major technological investments the TIM Group is making to develop the latest generation network infrastructure, key Information Technology and cloud services to support the digitization of the country's production and administrative fabric.

Noovle will strengthen the alliance already launched between the TIM Group and Google Cloud and will also make use of important strategic partnerships with the main industry leaders including Atos, Cisco, Citrix, Microsoft, Salesforce, SAP and VMware.

TIM S.A. obtains right to exercise subscription bonuses at Bank C6

TIM S.A. obtained, within the scope of the strategic partnership signed with Banco C6 S.A. the right to exercise subscription bonuses equivalent to an indirect stake of approximately 1.4% of C6's share capital as a result of reaching, in December 2020, the 1st level of the agreed goals. This right will be exercised when the Company's management deems to be more appropriate. It is important to note that the Subscription Bonuses will grant TIM S.A., when exercised, a minority position without control or significant influence over the management of C6.

C6 is a digital bank with outstanding growth in Brazil, being the institution that grew the most in the 3rd quarter of 2020 and surpassing more than 4 million opened accounts until November. The Bank has approximately 5.3 billion reais in total assets and transacts in its payment platform more than 1.5 billion reais per month.

In less than a year, the Partnership between companies generated a significant number of open accounts through the combined offers of telecommunications and financial services, which reinforces the relationship between TIM and C6 with significant results and confirms the innovative and centered character customer convenience.

Agreement with Trade Unions

On March 8, 2021, an agreement was stipulated with the Trade Unions governing the early redundancy of 1,300 people - in accordance with Article 4, subsections 1 to 7ter of Italian Law no. 92/2012.

All employees accruing pension entitlement by December 31, 2026 and who choose to terminate their contract of employment by end November 2021, can adhere voluntarily.

The agreement is part of the more comprehensive generational remix and professional renewal process launched by the company in line with the digital transformation in progress.

NOTE 47

LIST OF COMPANIES OF THE TIM GROUP

In accordance with Consob Communication DEM/6064293 dated July 28, 2006, the list of companies is provided herein. The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency. In addition to the percentage ownership of share capital, the percentage of voting rights in the ordinary shareholders' meeting, if different from the percentage holding of share capital, and which companies hold the investment.

Company name	Reg. office	Currency	Share capital	% Ownership	% of voting rights	Held by
PARENT COMPANY						
TIM S.p.A.	MILAN	EUR	11,677,002,855			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
DOMESTIC BU						
CD FIBER S.r.l. (design, construction, maintenance and management of network infrastructure services and high-speed electronic communication systems)	ROME	EUR	50,000	100.0000		TIM S.p.A.
DAPHNE 3 S.p.A. (assumption, holding, management and disposal of equity investments in INWIT)	MILAN	EUR	100,000	51.0000		TIM S.p.A.
FIBERCOP S.p.A. (infrastructures, networks, passive cabled access services to the premises of end users to be offered to TLC operators throughout Italy)	MILAN	EUR	50,000	100.0000		TIM S.p.A.
FLASH FIBER S.r.l. (development, implementation, maintenance and supply of the fiber network in Italy)	MILAN	EUR	30,000	80.0000		TIM S.p.A.
GLOBAL SPACE TRE S.r.l. (ICT services)	ROME	EUR	10,000	100.0000		NOOVLE S.r.l.
MED 1 SUBMARINE CABLES Ltd (construction and management of the submarine cable lev1)	RAMAT GAN (ISRAEL)	ILS	55,886,866	100.0000		TELECOM ITALIA SPARKLE S.p.A.
NOOVLE S.p.A. (design, implementation and management of infrastructures and data center services)	MILAN	EUR	50,000	100.0000		TIM S.p.A.
NOOVLE AI S.r.l. (ICT services)	ROVERETO	EUR	10,000	100.0000		NOOVLE S.r.l.
NOOVLE FRANCE Sasu (ICT services)	PARIS (FRANCE)	EUR	20,000	100.0000		NOOVLE S.r.l.
NOOVLE INTERNATIONAL SAGL (ICT services)	PREGASSONA (SWITZERLAND)	CHF	20,000	100.0000		NOOVLE S.r.l.
NOOVLE MALTA Ltd (ICT services)	GZIRA (MALTA)	EUR	10,000	90.0000		NOOVLE INTERNATIONAL SAGL
NOOVLE S.r.l. (ICT services)	MILAN	EUR	300,000	100.0000		TIM S.p.A.
NOOVLE SICILIA S.c.a.r.l. (ICT services)	PALERMO	EUR	50,000	80.0000		NOOVLE S.r.l.
NOOVLE SLOVAKIA S.R.O. (ICT services)	BRATISLAVA (SLOVAKIA)	EUR	5,000	85.0000 15.0000		NOOVLE S.r.l. TELECOM ITALIA FINANCE S.A.
OLIVETTI S.p.A. (production and sale of office equipment and information technology services)	IVREA (TURIN)	EUR	10,000,000	100.0000		TIM S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (San Marino telecommunications management)	BORGOMAGGIORE (SAN MARINO)	EUR	1,808,000	100.0000		TIM S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (completion and management of telecommunications services for public and private use)	ROME	EUR	200,000,000	100.0000		TIM S.p.A.
TELECOM ITALIA TRUST TECHNOLOGIES S.r.l. (other operations related to non-classified IT services)	POMEZIA (ROME)	EUR	7,000,000	100.0000		TIM S.p.A.
TELECOM ITALIA VENTURES S.r.l. (investment holding company)	MILAN	EUR	10,000	100.0000		TIM S.p.A.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES	EUR	3,000,000	100.0000		TIM S.p.A.

Company name	Reg. office	Currency	Share capital	% Ownership	% of voting rights	Held by
TELEFONIA MOBILE SAMMARINESE S.p.A. (development and management of mobile telecommunications plants and services)	BORGOMAGGIORE (SAN MARINO)	EUR	78,000	51.0000		TELECOM ITALIA SAN MARINO S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and trade of electricity)	ROME	EUR	50,000	100.0000		TIM S.p.A.
TELSY S.p.A. (production, installation, maintenance, reconditioning and sale of terminals, radio telephones, telecommunications and electronic systems in general)	TURIN	EUR	5,390,000	100.0000		TIM S.p.A.
TI SPARKLE AMERICAS Inc. (managed bandwidth services)	MIAMI (UNITED STATES OF AMERICA)	USD	10,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ARGENTINA S.A. (managed bandwidth services)	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE AUSTRIA GmbH (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE BELGIUM S.P.R.L. – B.V.B.A. (telecommunications services)	BRUXELLES (BELGIUM)	EUR	2,200,000	99.9967 0.0033		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE UK Ltd
TI SPARKLE BRASIL PARTICIPAÇÕES Ltda (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	71,563,866	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE BRASIL TELECOMUNICAÇÕES Ltda (managed bandwidth services)	RIO DE JANEIRO (BRAZIL)	BRL	69,337,363	99.9999 0.0001		TI SPARKLE BRASIL PARTICIPAÇÕES Ltda TI SPARKLE AMERICAS Inc.
TI SPARKLE BULGARIA EOOD (telecommunications)	SOFIA (BULGARIA)	BGN	100,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE CHILE S.p.A. (managed bandwidth services)	SANTIAGO (CHILE)	CLP	5,852,430,960	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE COLOMBIA Ltda (managed bandwidth services)	BOGOTÁ (COLOMBIA)	COP	12,635,774,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE CZECH S.R.O. (telecommunications services)	PRAGUE (CZECH REPUBLIC)	CZK	6,720,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE FRANCE S.A.S. (installation and management of telecommunications services for fixed network and related activities)	PARIS (FRANCE)	EUR	18,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE GREECE S.A. (telecommunications)	ATHENS (GREECE)	EUR	368,760	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ISRAEL Ltd (international wholesale telecommunication services)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (NETHERLANDS)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE NORTH AMERICA, Inc. (telecommunications and promotional services)	NEW YORK (UNITED STATES OF AMERICA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE PANAMA S.A. (managed bandwidth services)	PANAMA	USD	10,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE PERU S.A. (managed bandwidth services)	LIMA (PERU)	PEN	57,101,788	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE PUERTO RICO LLC (managed bandwidth services)	SAN JUAN (PUERTO RICO)	USD	3,050,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ROMANIA S.r.l. (telecommunications services)	BUCAREST (ROMANIA)	RON	3,021,560	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE RUSSIA LLC (telecommunications services)	MOSCOW (RUSSIA)	RUB	8,520,000	99.0000 1.0000		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE UK Ltd
TI SPARKLE SINGAPORE Pte.Ltd (telecommunications services)	SINGAPORE	USD	5,121,120	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE NORTH AMERICA
TI SPARKLE SLOVAKIA S.R.O. (telecommunications services)	BRATISLAVA (SLOVAKIA)	EUR	300,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE SPAIN TELECOMMUNICATIONS S.L. (telecommunications services)	MADRID (SPAIN)	EUR	1,687,124	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ST. CROIX LLC (managed bandwidth services)	VIRGIN ISLANDS (UNITED STATES OF AMERICA)	USD	1,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.

Company name	Reg. office	Currency	Share capital	% Ownership	% of voting rights	Held by
TI SPARKLE SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE TURKEY TELEKOMÜNİKASYON ANONİM SİRKETİ (telecommunications services)	ISTANBUL (TURKEY)	TRY	65,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE UK Ltd (value-added and networking services)	LONDON (UNITED KINGDOM)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE VENEZUELA C.A. (managed bandwidth services)	CARACAS (VENEZUELA)	VES	10	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIESSE S.c.p.A. (installation and assistance for electronic, IT, telematics and telecommunications equipment)	IVREA (TURIN)	EUR	103,292	61.0000		OLIVETTI S.p.A.
TIM MY BROKER S.r.l. (Insurance brokerage)	ROME	EUR	10,000	100.0000		TIM S.p.A.
TIM RETAIL S.r.l. (formerly 4G RETAIL S.r.l.) (sale of fixed and mobile telecommunications products and services and all analog and digital broadcasting equipment)	MILAN	EUR	2,402,241	100.0000		TIM S.p.A.
TIS LAGOS LIMITED (telecommunications services)	LAGOS (NIGERIA)	NGN	10,000,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE UK Ltd
BRAZIL BU						
FIBERCO SOLUÇÕES DE INFRAESTRUTURA Ltda (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	1,000	100.0000		TIM S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,169,029,859	99.9999 0.0001		TELECOM ITALIA FINANCE S.A. TIM S.p.A.
TIM S.A. (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	13,477,890,508	66.5882 0.0164	66.5991	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. TIM S.A.
OTHER OPERATIONS						
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and supplies)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI S.p.A.
OLIVETTI UK Ltd. (sale of office equipment and supplies)	NORTHAMPTON (UNITED KINGDOM)	GBP	6,295,712	100.0000		OLIVETTI S.p.A.
TELECOM ITALIA CAPITAL S.A. (financial company)	LUXEMBOURG	EUR	2,336,000	100.0000		TIM S.p.A.
TELECOM ITALIA FINANCE S.A. (financial company)	LUXEMBOURG	EUR	1,818,691,979	100.0000		TIM S.p.A.
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO ADMINISTRATIVA Ltda (telecommunications and promotional services)	SÃO PAULO (BRAZIL)	BRL	118,925,804	100.0000		TIM S.p.A.
TIAUDIT COMPLIANCE LATAM S.A. (in liquidation) (internal audit services)	RIO DE JANEIRO (BRAZIL)	BRL	1,500,000	69.9996 30.0004		TIM S.p.A. TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM TANK S.r.l. (fund and securities investments)	MILAN	EUR	18,600,000	100.0000		TIM S.p.A.

Company name	Reg. office	Currency	Share capital	% Ownership	% of voting rights	Held by
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
AREE URBANE S.r.l. (in liquidation) (real estate management)	MILAN	EUR	100,000	32.6200		TIM S.p.A.
INFRASTRUTTURE WIRELESS ITALIANE S.p.A. (installation and operation of installations and infrastructure for the management and the sale of telecommunications services)	MILAN	EUR	600,000,000	30.2000		DAPHNE 3 S.p.A.
MOVENDA S.p.A. (design, construction and diffusion of Internet sites, products)	ROME	EUR	133,333	24.9998		TELECOM ITALIA FINANCE S.A.
NORDCOM S.p.A. (application service provider)	MILAN	EUR	5,000,000	42.0000		TIM S.p.A.
PEDIUS S.r.l. (implementation of specialized telecommunications applications, telecommunications services over telephone connections, VOIP services)	ROME	EUR	181	(*)		TELECOM ITALIA VENTURES S.r.l.
TIGLIO I S.r.l. (real estate management)	MILAN	EUR	1,000,000	47.8020		TIM S.p.A.
TIGLIO II S.r.l. (in liquidation) (real estate management)	MILAN	EUR	10,000	49.4700		TIM S.p.A.
TIMFIN S.p.A. (formerly TIM-SCB JV S.p.A.) (carrying out in regard to the public of the concession of loans in any form and, notably, of any type of finance disbursed in the form of a personal and consumer loan)	TURIN	EUR	6,000,000	49.0000		TIM S.p.A.
W.A.Y. S.r.l. (development and sale of geolocation products and systems for security and logistics)	TURIN	EUR	136,383	39.9999		OLIVETTI S.p.A.
WEBIDOO S.p.A. (ICT services)	MILAN	EUR	200,000	(*)		NOOVLE S.r.l.
WESCHOOL S.r.l. (former OILPROJECT S.r.l.) (research, development, marketing and patenting of all intellectual property related to technology, information technology and TLC)	MILAN	EUR	16,108	(*)		TELECOM ITALIA VENTURES S.r.l.
WIMAN S.r.l. (development, management and implementation of platforms for social-based Wi-Fi authentication)	MATTINATA (FOGGIA)	EUR	22,233	(*)		TELECOM ITALIA VENTURES S.r.l.

(*) Associate over which TIM S.p.A., directly or indirectly, exercises significant influence pursuant to IAS 28 (Investments in Associates and Joint Ventures).

Company name	Reg. office	Currency	Share capital	% Ownership	% of voting rights	Held by
OTHER SIGNIFICANT EQUITY INVESTMENTS PURSUANT TO CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999 AS AMENDED						
CONSORZIO HEALTH INNOVATION HUB (in liquidation) (development of the market for systems and services for the social welfare and healthcare sector)	TRENTO (ITALY)	EUR	57,000	12.5000		TIM S.p.A.
DAHLIA TV S.p.A. (in liquidation) (pay-per-view services)	ROME	EUR	11,318,833	10.0786		TIM S.p.A.
FIN.PRIV. S.r.l. (financial company)	MILAN	EUR	20,000	14.2900		TIM S.p.A.
IGOON S.r.l. (in liquidation) (carpooling scheme to share unused seating capacity in cars in real time through a mobile App)	NAPLES	EUR	16,498	14.2805		TELECOM ITALIA VENTURES S.r.l.
INNAAS S.r.l. (design, development and sale of high-tech software and hardware)	ROME	EUR	108,700	15.2539		TELECOM ITALIA VENTURES S.r.l.
MIX S.r.l. (internet service provider)	MILAN	EUR	1,000,000	11.0937		TIM S.p.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF THE CONSOB REGULATION 11971 DATED MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Luigi Gubitosi, as Chief Executive Officer, and Giovanni Ronca, as Manager responsible for preparing TIM S.p.A. financial reports, certify, having also considered the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the effective application of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the 2020 fiscal year.
2. TIM has adopted the Internal Control – Integrated Framework Model (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, as its framework for the establishment and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.
3. The undersigned also certify that:
 - 3.1. the Consolidated Financial Statements at December 31, 2020:
 - a) have been prepared in compliance with the international accounting standards adopted by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council of July 19, 2002 (International Financial Reporting Standards – IFRS), as well as the legislative and regulatory provisions in force in Italy, including, in particular, the measures enacted for the implementation of Article 9 of Italian Legislative Decree 38 of February 28, 2005;
 - b) agree with the results of the accounting records and entries;
 - c) provide a true and fair view of the financial condition, the results of operations and the cash flows of the Company and its consolidated subsidiaries;
 - 3.2. the report on operations contains a reliable operating and financial review of the Company and of the Group, as well as a description of their exposure to the main risks and uncertainties. The Report on Operations also contains a reliable analysis of information concerning significant related party transactions.

February 23, 2021

Chief Executive Officer

**Manager Responsible for
Preparing the Corporate
Financial Reports**

_____(signed)_____

Luigi Gubitosi

_____(signed)_____

Giovanni Ronca

INDEPENDENT AUDITORS' REPORT

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
TIM S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of TIM Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of TIM S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. 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 our 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.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Impairment test of goodwill – Domestic As of December 31, 2020 goodwill amounts to Euro 22,847 million, and refers for Euro 22,242 million to the Domestic cash generating unit ("CGU") and for Euro 605 million to the Brazil CGU. The processes and methodologies used by the Group to evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the forecast of future cash flows and to the estimate of the long-term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgment required and the complexity of the assumptions applied in estimating the recoverable amount of goodwill, we considered that this area represents a key audit matter. Disclosure related to the assessment of goodwill are reported in note 5 "Goodwill" and in note 2 "Accounting policies" in the paragraphs "Impairment of intangible and tangible assets" and "Use of estimates".	Our audit procedures in response to the key audit matter included, among others: ▶ the assessment of the processes implemented by the Group with reference to the criteria and methodology of the impairment test; ▶ the validation of the CGUs perimeter and the test of the allocation of the carrying value of the Group's assets to each CGU; ▶ the assessment of the future cash flows forecasts, including comparisons with sector data and forecasts; ▶ the assessment of the consistency of the future cash flows forecasts of each CGU with the Group business plan; ▶ the assessment of forecasts in light of their historical accuracy; ▶ the assessment of the reasonableness of long-term growth rates and discount rates. The procedures referred to in the previous points also concerned the analysis of the assessments performed by the independent experts appointed by the Group. In performing our analysis, we involved our experts in valuation techniques, who performed an independent recalculation and carried out sensitivity analyses on the key assumptions in order to determine which changes in the assumptions could materially affect the recoverable amount. Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements with regards to the valuation of goodwill.
Revenue recognition TIM Group's revenues amounted to Euro 15,805 million as of December 31, 2020 and refer almost entirely to the telecommunications services rendered to retail and wholesale customers (other telecommunications operators). Procedures over the accounting of revenues required significant focus in the context of our audit procedures due to i) a highly complex accounting process due to the number of	Our audit procedures in response to the key audit matter included, among others: ▶ an understanding of the processes underlying the revenue recognition; ▶ the understanding and verification of the design and operation of the relevant controls over the revenue recognition process; ▶ the analysis of the application systems supporting the revenue recognition process; ▶ the assessment that the accounting policy

commercial offers, the number of underlying application systems and the related reconciliation processes and ii) the presence of certain manual phases in the revenue recognition process, in particular for services provided to large customers.

The Group provides the relative disclosure in Note 27 "Revenues" of the consolidated financial statements.

adopted for the main commercial offers is consistent with the provisions of the reference accounting standard;

- ▶ the analysis, on a sample basis, of some significant transactions relating to invoices issued and invoices to be issued, in order to verify that the contractual data and the evidence supporting the actual service rendered and / or goods transferred were consistent with the accounting policy adopted;
- ▶ the reconciliation of the management accounts with the accounting records in connection with the main balance sheet items related to customer relations;
- ▶ the analysis of the manual journal entries.

We also required external confirmations for a sample of customers and transactions. Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements with regards to the revenue recognition process.

Regulatory disputes

As of December 31, 2020, TIM Group is involved in several regulatory disputes in progress, many of which are characterized by significant counterparty requests.

The main disputes concern (i) the so-called 'follow-on' A428 proceedings, which arose following claims for compensation made by other Italian telco operators after certain fines had been imposed by the AGCM to TIM for market abuse of a dominant position, (ii) the 28-day billing proceeding, in which AGCOM ordered TIM to reimburse customers for unused service days, (iii) the I820 proceeding, started by AGCM against TIM and other telco operators, to ascertain a possible conduct restricting market competition and (iv) the A514, and the related "follow-on" proposed by some other telco operators, procedure in which the AGCM charged TIM with conduct aimed at hindering the entry on the market of a new operator. The assessment of the disputes was carried out by Management, as of 31 December 2020, based on the opinion of the external lawyers, as well as considering the latest information available.

The estimation of the risks connected to the disputes in which the Group is involved, requires

Our audit procedures in response to the key audit matter included, among others:

- ▶ an understanding of the process put in place by Management for assessing disputes, accompanied by test of the effectiveness of the internal controls relevant for this process;
- ▶ inquiries with Management regarding the main assumptions made in connection with disputes;
- ▶ the analysis of the legal opinions prepared by external consultants, based on which Management has based its assessments;
- ▶ the analysis of the responses received from external lawyers following our external confirmations procedures.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements with regards to the disputes in which the Group is involved, based on their compliance with the international accounting standards and their consistency with the results of our audit procedures.

a high degree of judgment by the Management and, also considering the complexity of the regulatory framework, we considered that this area represents a key audit matter. Disclosure related to the assessment of the risks relating to the regulatory disputes in which the Group is involved is reported in note 26 "Disputes and pending legal actions, other information, commitments and guarantees".

Fiscal disputes in Brazil

As of December 31, 2020, the TIM Group is involved in several disputes with the Brazilian tax authorities. The maximum potential liability associated with these disputes, as at December 31, 2020, amounts to Euro 2,605. With reference to this potential liability, the Group recognized a provision of Euro 63 million with regards to the risks deemed probable. The assessment of the risk related to the tax disputes in Brazil in which the Group is involved, requires a high degree of judgment by the Management and, also considering the significance of the amounts involved, we considered it to be a key audit matter. Disclosure related to the assessment of the risks relating to the fiscal disputes in which the Group is involved is reported in note 26 "Disputes and pending legal actions, other information, commitments and guarantees".

Our audit procedures in response to the key audit matter included, among others:

- ▶ an understanding of the process put in place by Management for assessing disputes, accompanied by test of the effectiveness of the controls relevant for this process;
- ▶ inquiries with Management regarding the main assumptions made in connection with disputes;
- ▶ the analysis of the legal opinions prepared by external consultants, based on which Management has based its assessments;
- ▶ the analysis of the responses to our external confirmations procedures received from external lawyers, also with the involvement of our experts in tax disputes.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements with regards to the disputes in which the Group is involved, based on their compliance with the international accounting standards and their consistency with the results of our audit procedures.

Recoverability of deferred tax assets

As of December 31, 2020, deferred tax assets amount to Euro 7,496 million in the consolidated financial statements. Deferred tax assets refer to the temporary deductible differences between the book and tax values of assets and liabilities in the financial statements. The recoverability of the carrying amount of deferred tax assets is subject to Management's evaluation and is based on the estimations of the future taxable income expected in the years in which they will be reversed. The processes and methodologies used to evaluate and determine the recoverable amount of these assets, are based on assumptions that

- Our audit procedures in response to the key audit matter included, among others:
- ▶ the assessment of the assumptions underlying the estimation of future taxable income and the reconciliation with the figures included in the Company's business plan for the period 2021-2023;
 - ▶ the assessment of the accuracy of the forecasts compared to prior periods;
 - ▶ the assessment of the Management calculations.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements with regards to the recoverability of deferred tax assets.

are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the consistency of the forecasts of future taxable income expected by the Company with those included in the business plan.

Considering the level of judgment required and the complexity of the assumptions applied in estimating future taxable amount used to determine the recoverability of deferred tax assets, we considered that this area represents a key audit matter.

Disclosure related to the assessment of recoverability of deferred tax assets are reported in note 2 "Accounting policies" in the paragraphs "Income tax expense (current and deferred)" and "Use of estimates" and in note 12 "Income tax expense (current and deferred)".

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company TIM S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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 Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated 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.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or 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 have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all 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 have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of TIM S.p.A., in the general meeting held on March 29, 2019, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of TIM S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of TIM Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of TIM Group] as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of TIM Group as at December 31, 2020, and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of TIM S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Turin, March 10, 2021

EY S.p.A.

Signed by: Ettore Abate, Auditor

This report has been translated into the English language solely for the convenience of international readers.

**TIM S.p.A.
SEPARATE
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2020**

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STATEMENTS OF FINANCIAL POSITION

Assets

(euros)	Notes	12.31.2020	of which with related parties	12.31.2019	of which with related parties
Non-current assets					
Intangible assets					
Goodwill	3)	23,050,788,256		24,340,444,756	
Intangible assets with a finite useful life	4)	5,500,451,232		5,818,455,532	
		28,551,239,488		30,158,900,288	
Tangible assets	5)				
Property, plant and equipment owned		10,335,288,469		10,591,121,055	
Rights of use assets	2) 6)	4,095,532,681	888,531,000	4,905,684,994	1,294,419,000
Other non-current assets					
Investments	7)	7,244,594,938		6,861,203,426	
Non-current financial receivables for lease contracts	8)	16,870,793		16,335,820	
Other non-current financial assets	8)	2,489,871,187	658,163,000	2,332,818,305	641,496,000
Miscellaneous receivables and other non-current assets	9)	1,733,641,142	131,043,000	1,745,781,815	139,378,000
Deferred tax assets	10)	7,336,789,781		881,857,275	
		18,821,767,841		11,837,996,641	
Total Non-current assets (a)		61,803,828,479		57,493,702,978	
Current assets					
Inventories	11)	143,772,151		155,541,552	
Trade and miscellaneous receivables and other current assets	12)	3,464,016,413	280,258,000	3,729,789,412	331,469,000
INCOME TAX RECEIVABLES	10)	39,809,071		67,540,811	
Investments					
Current financial assets					
Current financial receivables arising from lease contracts		44,356,056	2,749,000	53,793,050	
Securities other than investments, other financial receivables and other current financial assets		110,022,447	9,960,000	121,953,712	17,186,000
Cash and cash equivalents		1,765,441,712	92,297,000	829,022,799	780,000
	8)	1,919,820,215		1,004,769,561	
Current assets sub-total		5,567,417,850		4,957,641,336	
Discontinued operations/Non-current assets held for sale	13)	—		828,494,069	
Total Current assets (b)		5,567,417,850		5,786,135,405	
Total Assets (a+b)		67,371,246,329		63,279,838,383	

Equity and Liabilities

(euros)	Notes	12.31.2020	of which with related parties	12.31.2019	of which with related parties
Equity	14)				
Share capital issued		11,677,002,855		11,677,002,855	
less: Treasury shares		(19,234,377)		(20,719,608)	
Share capital		11,657,768,478		11,656,283,247	
Additional paid-in capital		2,133,374,023		2,094,207,410	
Legal reserve		2,312,977,576		2,293,873,993	
Other reserves					
Reserve for remeasurements of employee defined benefit plans (IAS 19)		(106,381,744)		(110,564,900)	
Other		1,311,892,366		1,366,969,441	
Total Other reserves		1,205,510,622		1,256,404,541	
Retained earnings (accumulated losses), including profit (loss) for the		7,698,445,058		873,523,296	
Total Equity	(c)	25,008,075,757		18,174,292,487	
Non-current liabilities					
Non-current financial liabilities for financing contracts and others	15)	24,440,361,873	5,665,036,000	26,181,613,166	5,756,665,000
Non-current financial liabilities for lease contracts	15)	3,505,783,671	809,746,000	4,001,651,991	997,771,000
Provisions for employee benefits	20)	676,081,097		1,106,545,929	
Deferred tax liabilities	10)	—		2,352,153	
Provisions for risks and charges	21)	618,128,216		527,779,856	
Miscellaneous payables and other non-current liabilities	22)	3,477,543,318	161,586,000	2,973,016,553	141,214,000
Total Non-current liabilities	(d)	32,717,898,175		34,792,959,648	
Current liabilities					
Current financial liabilities for financing contracts and others	15)	3,341,906,670	293,144,000	3,787,097,263	1,330,093,000
Current financial liabilities for lease contracts	15)	462,721,808	633,470,000	666,329,070	270,191,000
Trade and miscellaneous payables and other current liabilities	23)	5,609,421,674	497,665,000	5,842,636,759	381,348,000
Income tax payables	10)	231,222,245		16,523,156	
Total Current Liabilities	(e)	9,645,272,397		10,312,586,248	
Total Liabilities	(f=d+e)	42,363,170,572		45,105,545,896	
Total Equity and Liabilities	(c+f)	67,371,246,329		63,279,838,383	

SEPARATE INCOME STATEMENTS

(euros)	Notes	Year 2020	of which with related parties	Year 2019	of which with related parties
Revenues	25)	12,029,901,155	311,682,000	13,136,933,872	333,157,000
Other operating income	26)	188,895,769	8,188,000	197,623,543	11,224,000
Total revenues and operating income		12,218,796,924		13,334,557,415	
Acquisition of goods and services	27)	(4,610,694,132)	(1,015,398,000)	(4,595,820,812)	(913,114,000)
Employee benefits expenses	28)	(2,192,697,306)	(78,483,000)	(2,491,870,230)	(84,151,000)
Other operating expenses	29)	(605,118,222)	(2,489,000)	(1,061,237,597)	(6,359,000)
Change in inventories	30)	(11,769,401)		(106,500,060)	
Internally generated assets	31)	381,424,171		403,037,336	
Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current		5,179,942,034		5,482,166,052	
<i>of which: impact of non-recurring items</i>	39)	<i>(311,004,000)</i>		<i>(668,135,000)</i>	
Depreciation and amortization	32)	(3,581,638,098)	(141,558,000)	(3,719,256,987)	(273,443,000)
Gains/(losses) on disposals of non-current assets	33)	(14,850,367)		(41,501,105)	
Impairment reversals (losses) on non-current assets	34)	(7,738,314)		117,583	
Operating profit (loss) (EBIT)		1,575,715,255		1,721,525,543	
<i>of which: impact of non-recurring items</i>	39)	<i>(311,004,000)</i>		<i>(668,135,000)</i>	
Income/(expenses) from investments	35)	551,366,213	331,004,000	116,990,556	139,341,000
Finance income	36)	1,012,294,893	320,045,000	1,195,620,784	171,298,000
Finance expenses	36)	(1,972,897,516)	(574,275,000)	(2,461,921,850)	(1,004,648,000)
Profit (loss) before tax		1,166,478,845		572,215,033	
<i>of which: impact of non-recurring items</i>	39)	<i>(91,116,000)</i>		<i>(672,642,000)</i>	
Income tax expense	10)	5,994,990,200		(190,143,377)	
Profit (loss) for the year		7,161,469,045		382,071,656	
<i>of which: impact of non-recurring items</i>	39)	<i>5,831,279,000</i>		<i>(514,863,000)</i>	

STATEMENTS OF COMPREHENSIVE INCOME

Note 12

(euros)		Year 2020	Year 2019
Profit (loss) for the year	(a)	7,161,469,045	382,071,656
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive			
Profit (loss) from fair value adjustments		(4,533,712)	3,227,418
Income tax effect		51,646	(52,113)
	(b)	(4,482,066)	3,175,305
Remeasurements of employee defined benefit plans (IAS19):			
Actuarial gains (losses)		5,504,153	(39,552,345)
Income tax effect		(1,320,997)	9,492,563
	(c)	4,183,156	(30,059,782)
Other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Income tax effect		—	—
	(d)	—	—
Total other components that will not be reclassified subsequently to Separate Income Statements	(e=b+c+d)	(298,910)	(26,884,477)
Other components that will be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		4,056,453	(36,051,956)
Loss (profit) transferred to the Separate Income Statement		—	24,882,430
Income tax effect		(973,549)	1,074,869
	(f)	3,082,904	(10,094,657)
Hedging derivative instruments:			
Profit (loss) from fair value adjustments		(409,582,216)	(201,997,758)
Loss (profit) transferred to the Separate Income Statement		312,250,000	7,856,000
Income tax effect		23,359,732	46,594,022
	(g)	(73,972,484)	(147,547,736)
Other comprehensive income (loss) of associates and joint ventures accounted for using the equity method			
Profit (loss)		—	—
Loss (profit) transferred to the Separate Income Statement		—	—
Income tax effect		—	—
	(h)	—	—
Total other components that will be reclassified subsequently to Separate Income Statements	(i= f+g+h)	(70,889,580)	(157,642,393)
Total other components of the Statements of Comprehensive Income	(k= e+i)	(71,188,490)	(184,526,870)
Total comprehensive income (loss) for the year	(a+k)	7,090,280,555	197,544,786

STATEMENTS OF CHANGES IN EQUITY

Changes in Equity from January 1 to December 31, 2019

(euros)	Share capital	Additional paid-in capital	Reserve for financial assets measured at fair value through other comprehensive	Reserve for hedging instruments	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
Balance at December 31, 2018	11,656,283,247	2,094,207,410	17,091,496	(992,066,033)	(80,505,118)	5,443,194,051	18,138,205,053
Adoption of IFRS 16						233,916	233,916
Adjusted balance at 1.1.2019	11,656,283,247	2,094,207,410	17,091,496	(992,066,033)	(80,505,118)	5,443,427,967	18,138,438,969
Changes in equity during the year:							
Dividends approved						(165,764,272)	(165,764,272)
Total comprehensive income (loss) for the			(6,919,352)	(147,547,736)	(30,059,782)	382,071,656	197,544,786
Norverca S.p.A. and TIM S.p.A. merger surplus						526,081	526,081
Issue of equity instruments						3,516,061	3,516,061
Other movements			1,361,353			(1,330,491)	30,862
Balance at December 31, 2019	11,656,283,247	2,094,207,410	11,533,497	(1,139,613,769)	(110,564,900)	5,662,447,002	18,174,292,487

Changes in Equity from January 1 to December 31, 2020 – Note 14

(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 remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
Balance at December 31, 2019	11,656,283,247	2,094,207,410	11,533,497	(1,139,613,769)	(110,564,900)	5,662,447,002	18,174,292,487
Changes in equity during the year:							
Dividends approved						(317,443,700)	(317,443,700)
Total comprehensive income (loss) for the year			(1,399,162)	(73,972,484)	4,183,156	7,161,469,045	7,090,280,555
Merger by incorporation surplus of HR Services S.r.l. into						11,758,020	11,758,020
Broad-Based Share Ownership Plan 2020		39,166,613				4,649,454	43,816,067
Issue of equity instruments						3,867,672	3,867,672
Other movements	1,485,231					19,425	1,504,656
Balance at December 31, 2020	11,657,768,478	2,133,374,023	10,134,335	(1,213,586,253)	(106,381,744)	12,526,766,918	25,008,075,757

STATEMENTS OF CASH FLOWS

(euros)	Notes	Year 2020	Year 2019
Cashflow from operating activities:			
Profit (loss) for the year		7,161,469,045	382,071,656
Adjustments for:			
Depreciation and amortization	32)	3,581,638,098	3,719,256,987
Impairment losses (reversals) on non-current assets (including investments)		43,102,000	57,335,000
Net change in deferred tax assets and liabilities		(6,433,126,000)	55,119,000
Losses (gains) realized on disposals of non-current assets (including investments)		(211,775,000)	31,886,000
Change in provisions for employee benefits		(610,592,000)	(259,846,000)
Change in inventories		11,770,000	106,500,000
Change in trade receivables and other net receivables		216,587,000	106,733,000
Change in trade payables		(22,869,000)	(120,373,000)
Net change in income tax receivables/payables		693,552,000	99,830,000
Net change in miscellaneous receivables/payables and other assets/liabilities		56,594,416	216,689,245
Cash flows from (used in) operating activities	(a)	4,486,350,559	4,395,201,888
Cash flows from investing activities:			
Purchases of intangible, tangible and rights of use assets on a cash		(2,285,445,000)	(2,307,295,000)
Contributions for plants received		23,982,000	28,034,000
Cash arising from corporate transactions	7)	50,524,000	13,976,000
Acquisitions/disposals of other investments		(101,314,000)	(43,472,000)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		(61,272,000)	240,825,000
Proceeds received from the sale of investments in subsidiaries		—	142,170,000
Proceeds from sale/repayments of intangible, tangible, rights of use assets and other non-current assets		1,821,958,000	12,183,000
Cash flows from (used in) investing activities	(b)	(551,567,000)	(1,913,579,000)
Cash flows from financing activities:			
Change in current financial liabilities and other		(732,399,000)	(885,905,000)
Proceeds from non-current financial liabilities (including current portion)		1,022,437,000	3,814,352,000
Repayments of non-current financial liabilities (including current portion)		(2,808,685,000)	(4,795,912,000)
Changes in hedging and non-hedging derivatives		92,667,000	(187,407,000)
Proceeds for increases/repayment of capital		7,849,000	—
Dividends paid (*)		(317,139,000)	(165,720,000)
Cash flows from (used in) financing activities	(c)	(2,735,270,000)	(2,220,592,000)
Aggregate cash flows	(d=a+b+c)	1,199,513,559	261,030,888
Net cash and cash equivalents at beginning of the year	(e)	45,363,804	(215,667,084)
Net cash and cash equivalents at end of the year	(f=d+e)	1,244,877,363	45,363,804
(*) of which related parties:		(37,686,924)	—

Purchases of intangible, tangible and rights of use assets

(euros)	Notes	Year 2020	Year 2019
Purchase of intangible assets	4)	(959,315,000)	(819,485,000)
Purchase of tangible assets	5)	(1,467,357,000)	(1,657,804,000)
Purchase of rights of use assets	6)	(946,769,000)	(920,375,000)
Total purchase of intangible, tangible and rights of use assets on an		(3,373,441,000)	(3,397,664,000)
Change in payables arising from purchase of intangible, tangible and rights of use assets		1,087,996,000	1,090,369,000
Total purchase of intangible, tangible and rights of use assets on a cash		(2,285,445,000)	(2,307,295,000)
(*) of which related parties:		565,708,000	315,473,000

Additional Cash Flow information

(euros)	Year 2020	Year 2019
Income taxes (paid) received	249,301,000	(27,544,000)
Interest expense paid	(1,389,399,000)	(1,689,383,000)
Interest income received	465,448,000	654,562,000
Dividends received	331,127,000	140,495,000

Analysis of Net Cash and Cash Equivalents

(euros)	Year 2020	Year 2019
Net cash and cash equivalents at the start of the year:		
Cash and cash equivalents	829,022,799	885,426,755
Bank overdrafts repayable on demand	(783,658,995)	(1,101,093,839)
	45,363,804	(215,667,084)
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	1,765,441,712	829,022,799
Bank overdrafts repayable on demand	(520,564,349)	(783,658,995)
	1,244,877,363	45,363,804

The additional disclosures required by IAS 7 are provided in the Note "Net financial debt" to these separate financial statements.

NOTE 1

FORM, CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia, TIM in brief, is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of TIM S.p.A. are located in Milan, Italy, at Via Gaetano Negri 1.

The duration of TIM S.p.A., as stated in the company's bylaws, extends until December 31, 2100.

TIM S.p.A. operates in Italy in the fixed and mobile telecommunications sector.

The TIM S.p.A. separate financial statements at December 31, 2020 have been prepared on a going concern basis (further details are provided in the Note "Accounting Policies") and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as "IFRS"), as well as laws and regulations in force in Italy.

It should also be noted that in 2020 TIM S.p.A. applied accounting standards consistent with those of the previous year.

The separate 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. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In accordance with IAS 1 (Presentation of Financial Statements) comparative information included in the consolidated financial statements refers, unless otherwise indicated, to the previous year.

The statements of financial position, the separate income statements, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows are presented in euros (without cents) and the notes to these separate financial statements in millions of euros, unless otherwise indicated.

The publication of TIM S.p.A.'s separate financial statements for the year ended December 31, 2020 was approved by resolution of the Board of Directors on February 23, 2021.

However, final approval of the TIM S.p.A. separate financial statements rests with the shareholders' meeting.

Financial statements formats

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

- the **separate statements of financial position** have been prepared by classifying assets and liabilities according to the "current and non-current" criterion;
- the **separate 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 Company, conforms to internal reporting and is in line with industry practice.
In addition to EBIT or Operating profit (loss), the separate income statement includes the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

In particular, besides EBIT, EBITDA is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of TIM S.p.A. EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations
+ Finance expenses
- Finance income
+/- Income (Expenses) from investments
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 before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets

- the **statements of comprehensive income** include the profit or loss for the year as shown in the separate consolidated income statements and all other non-owner changes in equity;
- the **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, as required by Consob Resolution 15519 of July 27, 2006, in the separate income statement, income and expenses relating to transactions, which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impact has been shown separately, when they are significant. Specifically, non-recurring income/(expenses) include, for instance: income/expenses arising from the sale of properties, 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 for risks and charges and related reversals; costs for the settlement of disputes other than regulatory disputes; adjustments, realignments and other non-recurring items, also relating to previous years; impairment losses on the goodwill and/or other intangible and tangible assets. Certain costs related to the COVID-19 pandemic are also identified as non-recurring charges.

Also in reference to the above Consob Resolution, the amounts relating to balances or transactions with related parties have been shown separately in the financial statements.

NOTE 2

ACCOUNTING POLICIES

Going concern

The separate financial statements for the year ended December 31, 2020 have been prepared on a going concern basis as there is the reasonable expectation that TIM S.p.A. will continue its operational activities in the foreseeable future (and in any event for a time horizon 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 TIM is exposed:
 - the changes in the general macroeconomic situation in the Italian, European and Brazilian market, including the effects deriving from the continued state of COVID-19 health emergency, as well as the volatility of financial markets in the Eurozone, partly following the UK's Brexit;
 - 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, as well as the policy for the remuneration of risk capital, as described in the section "Share capital information" under the Note "Equity";
- 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 TIM S.p.A.'s ability to continue as a going concern.

Intangible assets

Goodwill

In accordance with IFRS 3 (Business Combinations), goodwill is recognized in the financial statements at the acquisition date (including through mergers or contributions) of companies or business units and is calculated as the difference between the consideration paid (measured in accordance with IFRS 3, generally determined on the basis of the fair value at the acquisition date) and the fair value at the acquisition date of the identifiable assets acquired net of the identifiable liabilities assumed.

Goodwill is classified in the statements of financial position as an intangible asset with an indefinite useful life, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement. 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).

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 incurred 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 in 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), when the use of the asset is likely to generate future economic benefits and when the cost of the asset can be reliably measured.

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 recognized in the separate consolidated income statements prospectively.

Tangible assets

Property, plant and equipment

Property, plant and equipment are 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.

The cost of these assets 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 statements over the useful life of the related tangible assets.

The calculation 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 statements, conventionally under the line item "Depreciation".

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. 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 recognized in the separate consolidated income statements prospectively.

Land, including land pertaining to buildings, is not depreciated.

Rights 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 consisting in the present value of future lease payments, against the recognition of the right of use of the leased asset.

On the commencement date of the lease, the right of use 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 for the signature of the lease and the present value of the estimated restoration and 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.

Impairment of intangible, tangible and rights 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 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 only subsequently 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 or market in which the cash-generating unit (or group of cash-generating units) operates.

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).

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.

Tangible and intangible assets with finite useful lives and rights of use assets

At the end of each reporting period, the Company 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 deterioration, 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 Company over market capitalization.

If there is any indication that an asset – whether tangible or intangible with finite useful lives or a right of use – has been 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. Where it is not possible to estimate the recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate 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 statements.

Financial instruments

Business models for financial assets management

For the management of trade receivables, Company Management has identified different business models based on the specific nature of the receivables, the type of counterparty and collection times, this was in order to optimize the management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal of receivables,

and the activation of factoring consistent with financial planning requirements.

The business models adopted are:

- Hold to Collect: receivables usually held to maturity, such as trade receivables due from large customers and the OLOs; these instruments fall within IFRS 9 category "Assets measured at amortized cost";
- Hold to Collect and Sell: receivables usually traded massively and on a recurring basis, such as receivables due from active consumer, small and business customers held for sale; these instruments fall under IFRS 9 category "Financial assets measured at fair value through other comprehensive income". As required by IFRS 9, the related reserve is reversed to the separate income statements when disposed of or impaired.

As part of managing financial assets other than trade receivables, Company 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 and in accordance with the strategies.

The Business Models adopted are the following:

- 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 comprehensive income;
- 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 profit or loss.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost adjusted by impairment losses. When there is objective evidence of an impairment, recoverability is verified by comparing the carrying amount of the investment against its recoverable amount consisting of the greater of fair value, net of disposal costs, and value in use.

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Company'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 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 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 income statements.

Changes in the value of other investments classified as "financial assets at fair value through separate profit or loss" are recognized directly in the separate income statements.

Securities other than investments

Securities other than 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 through 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 TIM S.p.A.'s portfolio for a period of not more than 12 months, and are included:

- as "financial assets measured at amortized cost" (AC) when held to maturity (originally more than 3 months but less than 12 months, or, although they had an original maturity of more than 12 months, they have been bought in a period during which maturity was included between 3 and 12 months);
- as "financial assets measured at fair value through other 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 comprehensive income" is reversed to the separate income statements when the financial asset is disposed of or impaired;
- as "financial assets measured at fair value through profit or loss" (FVTPL) in the other cases.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or 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 losses on 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 has been impaired.

The impairment losses on financial assets is based on the expected credit loss model.

In particular:

- impairment on trade receivables and on contract 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. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions;
- the impairment of financial assets other than trade receivables is calculated 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 worsening of its credit risk.

Derivative financial instruments

As allowed by IFRS 9, the Company decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

Derivatives are used by the Company 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 income statements. 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 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 arising from the fair value adjustment of the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for fair value adjustment of hedging derivative instruments). The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time the hedged transaction affects the separate income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate 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 income statement.

For derivatives for which a hedging relationship has not been designated, changes in value compared to initial recognition are recognized directly in the separate 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.

Reverse factoring transactions are also classified under trade payables. TIM has put in place reverse factoring agreements through which TIM gives partner banks a mandate to pay its suppliers as invoices become due. Suppliers participating in these programs have the right to sell (without any cost for TIM) receivables due from TIM. They can exercise this right at their total discretion and incurring all the costs to benefit from collection before the contractual due date.

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 income statement 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.

Transfer of receivables

TIM S.p.A. carries out sales of receivables under factoring contracts. These transfers, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, therefore meeting the requirements of IFRS 9 for derecognition. Special service agreements, under which the purchasers grant TIM S.p.A. a mandate to oversee the collection and management of receivables, have been entered into to maintain the relationship between the Company and its customers.

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.

Non-current assets held for sale/Discontinued operations

Non-current assets held for sale or disposal groups whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from other assets and liabilities in the separate statements of financial position. The corresponding amounts for the previous year are not reclassified in the statement of financial position but are instead shown separately in a specific column in the changes in assets and liabilities in the year in which the non-current assets held for sale or the disposal groups are classified as such.

Discontinued operations are a component of an entity that has been terminated or classified as held for sale and that:

- represents a major business line or geographical area of operation; or
- is part of a single coordinated plan to discontinue a separate major line of business or geographical area of operation; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations – whether disposed of or classified as held for sale – are shown separately in the separate income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate income statement, net of tax effects, for comparative purposes.

Non-current assets held for sale or discontinued groups classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to each specific asset and liability, and subsequently measured at the lower of the carrying amount and fair value, less cost to sell.

Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets or disposal groups classified as held for sale and expensed in the separate income statement.

An upward revision of value is, instead, recognized for each subsequent increase in the fair value of an asset less cost to sell, but not in excess of the previously recognized cumulative impairment loss.

As required by IFRS 5 (Non-current assets held for sale and discontinued operations), an entity shall not depreciate (or amortize) non-current assets classified as held for sale or being part of a discontinued group.

Finance expenses and other expenses attributable to the liabilities of a discontinued group classified as held for sale must continue to be recognized.

Provisions for employee benefits

Provision for employee severance indemnity

Employee severance indemnity, mandatory pursuant to Article 2120 of the Italian Civil Code, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity, so calculated, is considered a "Defined benefit plan" and the related liability to be recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations.

The *remeasurements* of actuarial gains and losses are recognized in other components of other comprehensive income. The interest expenses related to the "time value" component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate income statement under financial expenses.

Starting from January 1, 2007, the Italian Law gave employees the choice to either allocate their accruing indemnity to supplementary pension funds or it as an obligation of the Company. Companies that employ at least 50 employees must transfer the employee severance indemnity to the "Treasury fund" managed by INPS,

the Italian Social Security Institute. Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of "Defined contribution plans".

Equity compensation plans

TIM S.p.A. provides additional benefits to certain managers of the Group companies through equity compensation plans (for example: 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 "Employee benefits expenses", for employees of the Company, and in "Investments", for employees of subsidiaries, 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. An adjustment is made to "Other equity instruments" for the impact of the change in estimate with contra-entry to "Employee benefits expenses" or "Investments".

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" for employees of the Company, and in "Investments", for employees of subsidiaries; at the end of each year such liability is measured at fair value.

Provisions for risks and charges

The Company 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 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 as "Finance expenses".

Government grants

Government grants are recognized when there is a reasonable certainty that they will be received and that the Company will satisfy all the conditions established for their granting by the government, government entities and equivalent local, national or international entities.

Government grants are recognized in the separate income statement, on a straight-line basis, over the periods in which the Company recognizes the expenses that the grants are intended to offset as costs.

Government grants related to assets received for the acquisition and/or construction of non-current tangible assets are recorded as deferred income in the statement of financial position and systematically credited to the separate income statement over the useful life of the systems the grants relate to.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, treasury shares are accounted for as a deduction from the share capital issued in the amount corresponding to the "accounting par value", that is the ratio of total share capital and the number of issued shares, while the excess cost of acquisition over the accounting par value is presented as a deduction from "Other reserves and retained earnings (accumulated losses), including profit (loss) for the year".

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 translated 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 statements.

Revenues

Revenues are the gross inflows of economic benefits of the period arising from the conduction of the company's ordinary business. 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 the 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), and identify the respective rights and obligations: in other terms, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Company considers receipt of payment as probable;
- **identification of the performance obligations:** the main performance obligations identified, i.e. promises to transfer goods and services that are distinct, are services rendered (including voice and data traffic and ICT solutions) to retail customers, services rendered to wholesale customers, and sale of products;
- **determination of the transaction price:** is the total amount contracted with the other party regarding the entire contractual term. The Company has determined that the contractual term is the one arising from the contractual obligations between the parties or, in lack of these obligations, it is by convention one month;
- **allocation of the transaction price to the performance obligations:** the allocation is made proportionately to the respective stand-alone selling prices calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service.

Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

For offerings which include the sale of devices and service contracts (bundle offerings), the Company allocates the contractual transaction price to the performance obligations of the contract, proportionately to the stand-alone selling prices of the single performance obligations;

- **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**

Revenues from services rendered are recognized in the separate income statements according to the stage of completion of the service, that is based on actual consumption.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Company. In the event that the Company is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for traffic already collected but not yet consumed are recorded in "Trade and miscellaneous payables and other current liabilities" in the statements of financial position.

Revenues for services rendered are generally invoiced and collected bimonthly/monthly for retail customers, or invoiced monthly and collected in 40-60 days for wholesale customers.

- ⑩ **Revenues from sales**

Revenues from sales (telephone products and others) are recognized upon delivery when control of the assets is transferred to the customers.

The devices sold separately from the services are invoiced at the time of delivery; collection takes place on demand or based on installment plans (up to 48 monthly installments). The devices sold as part of bundle offerings are invoiced at the time of delivery and usually collected in 24 monthly installments.

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

- **Contract assets** are the right to a consideration in exchange for goods or services that have been transferred to the customer, when the right is conditioned on something other than the passage of time.

- **Liabilities deriving from a contract** are the obligation to transfer goods or services to the customer for which the Company has received (or for which it is due) a consideration from the customer.

Contract costs (incremental costs of obtaining a contract and costs to fulfill a contract; mainly technical activation costs and costs for sales network commissions) are deferred and recognized through separate profit or loss depending on the expected term of the contractual relationship with the customers. TIM avails itself of the practical expedient, provided for by IFRS 15, to recognize the incremental costs for obtaining the contract entirely in the income statement, provided the amortization period does not exceed 12 months.

The recoverability of contract assets and deferred costs is periodically assessed.

Research and advertising costs

Research costs and advertising expenses are charged directly to the separate consolidated income statements in the year in which they are incurred.

Financial 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; changes in the fair value of derivatives and other financial instruments measured at fair value through the income statement; gains and losses on foreign exchange and financial instruments (including derivatives).

Dividends

Dividends received are recognized in the separate 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 are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

Income tax expense (current and deferred)

Income tax expense includes all taxes calculated on the basis of the taxable income of the Company.

Current and deferred income taxes are 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.

The income tax expense is recognized in the separate income statement, except to the extent that it relates to items directly charged or credited to equity, in which case the related tax effect is recognized in the relevant equity reserves. In the Statements of Comprehensive Income, the amount of income tax expense relating to each item included as "Other components of the Statements of comprehensive income" is indicated.

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 relevant carrying amounts in the separate financial statements. Deferred tax assets on tax losses carried forward are recognized to the extent that a future taxable income will be probably available against which they can be recovered. Tax assets and liabilities are offset when there is a legally enforceable right of offset. Current and deferred tax assets and liabilities are determined by adopting the tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The other taxes, other than income taxes, are included in "Other operating expenses".

Use of estimates

The preparation of separate 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 on 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 significant accounting estimates that involve a high level of subjective assumptions and judgments by directors are set out below.

Financial statements area	Accounting estimates
Goodwill impairment	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. This complex valuation process entails the use of methods such as the discounted cash flow method, which uses assumptions to estimate cash flows. 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 tangible and intangible assets with finite useful lives and rights of use assets	At the end of each reporting period, the company 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 future cash flows and calculating the fair value of each asset requires the 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-down.
Lease liabilities and rights of use assets	The value of lease liabilities and corresponding rights of use is determined by calculating the present value of the lease payments, also bearing in mind whether the renewal of the lease is reasonably certain.
Capitalization/deferment of costs	The capitalization/deferment of internal and external costs is a process that entails elements of estimation and valuation. Specifically, it involves the valuation of: i) the likelihood that capitalized costs will be recovered through correlated future revenues; and ii) the effective increase in the future economic benefits embodied in the related costs.
Provision for bad debts	Impairment on trade receivables and on contract 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. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
Depreciation and amortization	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing, and thus on the amount of depreciation and amortization expense.
Accruals, contingent liabilities and provisions for employee benefits	As regards the provisions for restoration costs, the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires the valuation of the liabilities arising from such dismantling and restoration obligations, which seldom are entirely defined by laws, administrative regulations or contract clauses, and which normally are to be complied with after an interval of several years. The accruals related to legal, arbitration and fiscal disputes, as well as regulatory proceedings, are the result of a complex estimation process based upon the probability of an unfavorable outcome. Provisions for employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	The recognition of revenues is influenced by estimates of the amount of discounts, rebates and returns to be reported as a direct adjustment to revenues, as well as the methods for defining individual product or service stand alone selling prices and for determining the duration of the contract when there are renewal options.
Contract costs (IFRS 15)	The recognition of the costs of obtaining and fulfilling contracts is influenced by the estimated expected duration of the relationship with the customer, calculated on the basis of the historical turnover indexes and future estimates. However, this estimate is subject to fluctuations and could only represent customers' future behavior in a limited way, especially if there are new commercial offers or changes in the competitive environment.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be recovered. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible temporary differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
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., and on the basis of prices existing in regulated markets or quotations provided by financial counterparts. For more details, see the Note "Supplementary disclosures on financial instruments".

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), paragraph 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management, through careful subjective evaluation techniques, chooses the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Company, which reflect the economic substance of the transactions, which are neutral, prepared on a prudent basis and complete in all material respects.

New standards and interpretations endorsed by the EU and in force from January 1, 2020

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force commencing as of January 1, 2020.

Amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: additional disclosure – Interest-rate benchmark reform)

Commission Regulation (EU) 2020/34 was issued on January 15, 2020, implementing amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: recognition and measurement and IFRS 7 – Financial Instruments: additional disclosure.

The amendments refer to some specific hedge accounting requirements and provide facilitation in relation to the potential effects of uncertainty caused by the IBOR reform.

Moreover, the amendments require companies to provide additional disclosure on investors concerning the hedging relations directly affected by these uncertainties.

The adoption of these amendments had no effect on the separate financial statements of TIM S.p.A. at December 31, 2020.

Amendments to References to the Conceptual Framework in IFRS Standards

On November 29, 2019, was issued, implementing the Commission Regulation (EU) 2019/2075 revised version of the Conceptual Framework for Financial Reporting, at EU level. The main changes with respect to the 2010 version concern:

- a new chapter on measurement;
- best definitions and guidance, particularly with regard to the definition of liabilities;
- clarifications of important concepts, such as "stewardship", prudence and uncertainty in measurements.

A document was also published updating references in IFRS to the previous Conceptual Framework.

The adoption of these amendments had no effect on the separate financial statements of TIM S.p.A. at December 31, 2020.

Amendments to IAS 1 and IAS 8 (Definition of Material)

On November 29, 2019, Commission Regulation (EU) 2019/2104 was issued, implementing some amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

These amendments clarify the definition of "material" and align the definition used in the "Conceptual Framework" with that used in individual IFRS. The definition of "material", as revised by the amendments, is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The adoption of these amendments had no effect on the separate financial statements of TIM S.p.A. at December 31, 2020.

Amendments to IFRS 3 (Business Combinations)

On April 21, 2020, Commission Regulation (EU) 2020/551 was issued, implementing some amendments to IFRS 3 (Business Combinations). These amendments concern the definition of "business" and help the entity determine whether an acquisition is a "business" or a group of assets.

Based on the new definition, a business is: "An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. The amendments also clarify that in order to be considered a business, an acquisition must include inputs and a substantial process, that together contribute to the ability to generate outputs".

The adoption of these amendments had no effect on the separate financial statements of TIM S.p.A. at December 31, 2020.

Amendments to IFRS 16 Leases for concessions related to COVID-19

On 10-9-2020, Regulation EU 2020/1434 was issued, endorsing various amendments to IFRS 16 to simplify matters for lessees in the recognition of rent concessions due to COVID-19.

By way of practical expedient, a lessee can choose not to consider that a reduction in rental charges granted by a lessor constitutes an amendment to the lease contract. This practical expedient only applies to reductions in rents that are a direct consequence of COVID-19 and only if all the conditions envisaged by the amendment in question are met.

A lessee applying this practical expedient must provide a disclosure.

These changes must be applied retrospectively for all years starting after June 1, 2020. Early application is permitted.

The adoption of these amendments had no effect on the separate financial statements of TIM S.p.A. at December 31, 2020.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB BUT NOT YET APPLICABLE

At the date of preparation of these separate financial statements, the IASB had issued the following new standards / interpretations which have not yet come into force:

	Mandatory application starting from
New Standards / Interpretations adopted by UE but not yet applicable	
Amendments to IFRS 4 Insurance contracts – Deferment of IFRS 9	1/01/2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of the interest rates benchmark - Phase 2	1/01/2021
New Standards and Interpretations not yet in force and not yet endorsed by the EU	
Amendments to: IFRS 3 Business combinations; IAS 16 Property, Plant and equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual cycle of improvements 2018-2020	1/01/2022
Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current	1/01/2023
Amendments to IAS 1 Presentation of Financial Statements: Information regarding accounting standards	1/01/2023
Amendments to IAS 8 Accounting Standards, changes in accounting estimates and Errors: Definition of estimates	1/01/2023
IFRS 17 (Insurance contracts), including amendments to IFRS 17	1/01/2023

The potential impacts on the separate financial statements from application of these new standards and interpretations are currently being assessed.

With regard to the process of reforming benchmark interest rates, no particular impact on the hedges in Hedge Accounting is expected in 2021.

More specifically, TIM has adhered to the IBOR Fallback Protocol 2020 published by the ISDA on October 23, which defines the fallback mechanisms (compounded RFR in arrears plus a spread adjustment) following the realization of a permanent cessation trigger or pre-cessation trigger; the switch must in any case not cause any major changes in cash flow hedges to the fixed-rate underlyings in currency nor to the fair value hedges of underlyings in euros (the process of replacing the Euribor would appear to be late in respect of that of the Libor).

The situation that requires the closest attention and analysis is that of the variable rate intercompany loans hedged in Hedge Accounting on TIM S.p.A.; if, on the one hand, adhesion to the ISDA protocol assures the adjustment of the derivative conditions, the possibility will be monitored to accordingly also adjust the underlying items, so as to safeguard the effectiveness of the hedges.

NOTE 3

GOODWILL

The item at December 31, 2020 amounted to 23,051 million euros, down 1,290 million euros on December 31, 2019, and relates to the goodwill included in the domestic business segment of TIM S.p.A.

The table below shows the changes to Goodwill in 2020:

(million euros)

Goodwill at January 1, 2020	24,341
A package of shares was transferred, equal to 4.3% of the share capital of INWIT, in an accelerated book-building procedure reserved for institutional investors	(253)
Sale of the share capital of INWIT to Daphne 3 S.p.A. of 14.80% on October 2, 2020	(863)
Sale of 1.2% of the share capital of INWIT to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited on October 2, 2020	(70)
Sale to the same SPV of the remaining 1.8% of the share capital of INWIT, following the exercise of the relevant purchase option, in December 2020	(104)
Goodwill at December 31, 2020	23,051

As a consequence of the transactions that took place in 2020 regarding the investment in Infrastrutture Wireless Italiane S.p.A. (INWIT), following which on December 31, 2020, TIM S.p.A. exercises indirect control over INWIT through the subsidiary Daphne 3 S.p.A., the portion of goodwill attributed to the investment in Daphne 3 is 898 million euros, net of that already included in the equity investment.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment on at least an annual basis when preparing the separate financial statements of TIM S.p.A., which in preparing the 2020 financial statements carried out impairment testing in accordance with the procedure adopted by the Company. The recoverable amount of the assets at December 31, 2020 was higher than the net carrying amount and therefore no impairment losses were recorded.

The recoverable value of the assets was determined in accordance with the impairment test of the Domestic CGU carried out for the purposes of preparing the Group's consolidated financial statements and concerned the domestic business unit of TIM S.p.A., corresponding to the Domestic Cash Generating Unit (CGU) considered for the purposes of the goodwill impairment test in the consolidated financial statements, after excluding the book values of the subsidiaries that fall within its perimeter.

The value in use estimate was made – in accordance with IAS 36 and with valuation principles and best practices – based on the expected cash flows in different scenarios. The various expected cash flows were then summarized into an average normal cash flow, determined with the aid of Experts (expert appraisers and industry experts) and based on the data from the 2021-2023 Business Plan approved by the Board of Directors. In particular, expected average cash flows were measured for the three years of the 2021-2023 Business Plan, plus an additional two years on the basis of extrapolated data, for which future cash flows were explicitly forecast for a period of five years (2021-2025). The extrapolation of forecast data for the two-year period 2024-2025 was carried out in order to intercept market and competitive trends that will become manifest beyond the forecast horizon of the Business Plan.

As regards the estimate of the terminal value, the sustainable long-term cash flow was assumed to be the extrapolation of the estimated cash flow at 2025, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure. Furthermore, with specific reference to the incremental value deriving from 5G license use and therefore from the development of new and innovative business areas, a measurement model has been adopted that takes into account the net incremental flows for a defined period of time based on the duration of the license. This approach is consistent with the need to include in the configuration of value, on one hand the outflows deriving from the payment of the license (2019 - 2022) and the Capex to support its development (as per the Business Plan), and on the other the positive net flows from the incremental business component of the license acquisition that will develop over a broad period of time and over the 5 years of explicit forecast.

The 2021-2023 Business Plan incorporates various assessments on the potential exogenous and endogenous risks as well as the related action taken to combat and respond to such, also taking into account the current COVID-19 epidemiological emergency. In order to define the average normal cash flow for the impairment test, the management, with the aid of Experts, identified additional risk factors, making changes to the amounts and/or in the time distribution of future cash flows, giving greater weight to the external evidence available.

The cost of capital used to discount the future cash flows in the estimate of the value in use was determined as follows:

- it was estimated using the Capital Asset Pricing Model (CAPM), which is one of the generally accepted application criteria referred to in IAS 36;
- it reflects current market estimates of the time value of money and the specific risks associated with the asset groups, and includes appropriate yield premiums for country risk;
- it was calculated using comparative market parameters to estimate the “Beta coefficient” and the weighting coefficient of the equity and debt capital components;

The following are provided below:

- the weighted average cost of capital (WACC rate) used to discount the future cash flows and the equivalent rate before tax;
- the growth rates used to estimate the residual value after the explicit forecast period (the G-Rates), which are expressed in nominal terms;
- implicit capitalization rates resulting from the difference between the cost of capital, after tax, and the G-Rate.

Principal parameters for the estimates of value in use

	TIM S.p.A.
WACC	4.73%
WACC before tax	6.33%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate after tax (WACC-g)	4.23%
Capitalization rate before tax (WACC-g)	5.83%
Capex/Revenues, perpetual	19.2%

The growth rate of the terminal value “g” was estimated taking into account the expected outlook during the explicit forecast period and is consistent with the range of growth rates applied by analysts who monitor TIM shares.

The capital expenditure phase, competitive positioning and technological infrastructure managed were considered in the estimate of the level of capital expenditure required to sustain the perpetual generation of cash flows in the period after the explicit forecast period.

In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. Below are the parameters that, if considered individually and on a consistent basis, make the recoverable value equal to their net carrying amount.

Parameters that make the value in use equal to the carrying amount

	TIM S.p.A.
WACC before tax	8.25%
Capitalization rate before tax (WACC-g)	7.75%
Capex/Revenues, perpetual	26.98%

In addition to average normal cash flows, to take into account the market operator’s perspective, sensitivity analyses were conducted on the main risk factors identified with the Experts to determine the value in use. As a result of these analyses, the recoverable value was in any case higher than the net carrying amount.

NOTE 4

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The item decreased by 318 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 reclassifications	Investments	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12.31.2019
Industrial patents and intellectual property rights	1,256		511	(842)			424	1,349
Concessions, licenses, trademarks and similar rights	2,160	(120)	—	(380)			1,719	3,379
Other intangible	—		1					1
Work in progress and advance payments	2,923		307			(1)	(2,140)	1,089
Total	6,339	(120)	819	(1,222)	—	(1)	3	5,818

(million euros)	12.31.2019	Mergers/ Conferment of Branches of Business	Investments	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12.31.2020
Industrial patents and intellectual property rights	1,349	11	482	(910)			371	1,303
Concessions, licenses, trademarks and similar rights	3,379			(379)		—		3,000
Other intangible	1			(1)			—	—
Work in progress and advance payments	1,089	3	477		—	(1)	(371)	1,197
Total	5,818	14	959	(1,290)	—	(1)	—	5,500

The data reflects the mergers by incorporation that took place respectively on September 30, 2020, on October 1, 2020 and on December 31, 2020, all with tax and accounting effects backdated to January 1, 2020, of TN Fiber S.r.l., TIM Vision S.r.l. and HR Services S.r.l. into TIM S.p.A. More specifically, the values acquired refer for 11 million euros to patent rights and television licenses and for 3 million euros to intangible assets in progress as a result of the merger by incorporation of TIM Vision S.r.l..

Industrial patents and intellectual property rights consisted of software patents and television rights. In particular:

- television rights for TIM multimedia platforms are amortized over the duration of the contracts;
- application and plant operation software, purchased outright and with user licenses, is amortized over an expected useful life of two or three years;
- patents are amortized over five years.

They decreased by 46 million euros, mainly as a result of period amortization.

Concessions, licenses, trademarks and similar rights mainly related to the unamortized cost of licenses for mobile and fixed telecommunications services. Compared to December 31, 2019, they are down by 379 million euros, mainly due to period amortization.

The amount of telephone licenses and similar rights in operation at December 31, 2020 (3,000 million euros) and their useful lives are detailed below:

Type	Residual amount at 12.31.2020 (thousands of	Useful life (Years)	Maturity:	Amortization expense for 2020 (thousands of euros)
UMTS	134,279	18	12/31/2021	134,279
UMTS 2100 MHz	7,362	12	12/31/2021	7,362
WiMax	2,225	15	05/31/2023	921
LTE 1800 MHz	77,139	18	12/31/2029	8,571
LTE 800 MHz	540,284	17	12/31/2029	60,031
LTE 2600 MHz	59,419	17	12/31/2029	6,602
L Band (1452-1492 MHz)	148,236	14	12/31/2029	16,471
900 and 1800 MHz band	492,735	11	12/31/2029	54,748
3600-3800 MHz band (5G)	1,508,670	19	12/31/2037	88,745
26.5-27.5 GHz band (5G)	29,544	19	12/31/2037	1,738

Intangible assets in progress and advance payments amounted to 1,197 million euros (1,089 million euros at December 31, 2019) and rise by 108 million euros. They include 680 million euros relating to the rights to frequencies in the 694-790 MHz bands that are not yet operational and work in progress mainly relating to software development and investments for the digital evolution of Network Infrastructures.

In FY 2020, industrial investments came to 959 million euros, up by 140 million euros compared to 2019, mainly following the greater investments necessary to support the digital evolution of the Core Network and, to a lesser extent, for new software development projects (e.g. Digital CFO) and to purchase multimedia contents. They include 180 million euros of internally generated assets (185 million euros in 2019), involving development and evolutionary maintenance of software programs and platforms and innovative network engineering and solution, application and service design activities.

Amortization of intangible assets amounted to 1,290 million euros and increased by 68 million euros compared to the amount recognized in 2019 (1,222 million euros). Amortization is recorded in the income statement under the components of EBIT.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	Gross carrying amount	12.31.2019	Accumulated depreciation	Net carrying amount
		Accumulated impairment		
Industrial patents and intellectual property rights	7,060		(5,711)	1,349
Concessions, licenses, trademarks and similar rights	6,523		(3,144)	3,379
Other intangible assets	56		(55)	1
Work in progress and advance payments	1,089			1,089
Total	14,729	—	(8,911)	5,818

(million euros)	Gross carrying amount	12.31.2020 Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	7,610	(1)	(6,306)	1,303
Concessions, licenses, trademarks and similar rights	6,523		(3,523)	3,000
Other intangible assets	56		(56)	—
Work in progress and advance payments	1,197		—	1,197
Total	15,386	(1)	(9,885)	5,500

(*) Includes 1 million euros relating to Impairment losses accrued on the values of the intangible assets of the “Digital School” BU demerged to TIM S.p.A., with tax and statutory effects from December 1, 2020.

With regard to the gross carrying amounts of intangible assets with a finite useful life, in 2020, disposals of 324 million euros were made, relating to intellectual property rights, fully amortized, which mainly concerned obsolete releases of system software.

NOTE 5

TANGIBLE ASSETS

The item decreased by 256 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 Reclassifications	Investments	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12.31.2019
Land	224						2	226
Buildings (civil and industrial)	574		6	(36)			21	565
Plant and equipment	9,162		1,120	(1,689)		(20)	359	8,932
Manufacturing and distribution equipment	30		5	(12)			2	25
Other	219	(25)	41	(81)			33	187
Construction in progress and advance payments	573		486	—		(3)	(400)	656
Total	10,782	(25)	1,658	(1,818)	—	(23)	17	10,591

(million euros)	12.31.2019	Mergers/Conferment of Branches of Business	Investments	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12.31.2020
Land	226		9			(3)		232
Buildings (civil and industrial)	565		18	(33)		(1)	22	571
Plant and equipment	8,932	5	981	(1,623)		(4)	369	8,660
Manufacturing and distribution equipment	25		4	(11)			3	21
Other	187		56	(83)			23	183
Construction in progress and advance payments	656		400		(8)	(2)	(378)	668
Total	10,591	5	1,468	(1,750)	(8)	(10)	39	10,335

The data reflects the mergers by incorporation that took place respectively on September 30, 2020, on October 1, 2020 and on December 31, 2020, all with tax and accounting effects backdated to January 1, 2020, of TN Fiber S.r.l., TIM Vision S.r.l. and HR Services S.r.l. into TIM S.p.A.. In particular, the values refer for 4 million euros to the acquisition, following the merger of TN Fiber S.r.l. and for 1 million euros, the acquisition following the merger of HR Services S.r.l..

Land includes both built-up land (with buildings or light constructions) and other available land (on which various building works stand that are not recorded in the land registry, such as pylons, building podia, etc.). It should be noted that land, including land pertaining to buildings, is not depreciated.

The item **Buildings (civil and industrial)** includes buildings for industrial use hosting telephone exchanges or offices and light constructions (small prefabricated buildings and stacked containers).

The item Plant and machinery represents the technical infrastructure used for the provision of telecommunications services (transport and distribution of voice/data traffic). In detail it consists of switching and power supply systems, copper and fiber optic backbones, transmission equipment for fixed and mobile networks and traffic termination telephone systems used by the various customer segments. This item decreased by 272 million euros compared to December 31, 2019, mainly as a result of the amortization charge for the year, partially offset by the capital expenditure and exercisability relating to the underground and overhead copper network (260 million euros), access and carrier network in fiber optics (218 million euros),

subscriber connection units (130 million euros), LTE / UMTS core + access (111 million euros), transmission equipment including SDH-Wdm (42 million euros), data network and switching (39 million euros), NGAN equipment (12 million euros), power supply systems (14 million euros) and fixed and mobile commercial products for customer rental contracts (43 million euros).

The item includes in Other changes the reclassification of 6 million euros from Rights of use assets to Plant and equipment of the value acquired following the merger of TN Fiber S.r.l., insofar as relative to the rights of use previously held by TIM over the TN Fiber network acquired through the transaction.

Manufacturing and distribution equipment consists of instruments and equipment used for the operation and maintenance of plant and equipment.

Other is mostly made up of hardware for the functioning of the Data Centers and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines; decreased by 4 million euros compared to December 31, 2019, as a result of the depreciation and amortization charge for the year (83 million euros), partially offset by investments (56 million euros), mainly for the purchase of hardware for data centers and work stations and other changes (23 million euros) mainly referring to the potential exercise of other hardware types.

Construction in progress and advance payments increased by 12 million euros compared to December 31, 2019 and refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use. Other changes include the commissioning of capitalizations from previous years.

Disposals amounted to 10 million euros and mainly related to the sale of tangible fixed assets, including sales of Dark Fiber for network infrastructures (installation, transmission, access) and the abandonment of sites for Base Transceiver Stations.

In 2020, **industrial investments** came to 1,468 million euros, down by 190 million euros compared to 2019, mainly following the different timing of FTTCab development programs and network investments in general, in addition to the lesser investments necessary to the development of the Core Network, characterized by a technological evolution that is ever more driven towards automation and digitization. They include 201 million euros of internally generated assets (218 million euros in 2019), involving the design, construction and testing of network infrastructure and access and transmission networks.

Depreciation of tangible assets totaled 1,750 million euros, an increase of 68 million euros compared to 2019. Depreciation is calculated using the straight-line method over the remaining useful lives of the assets in accordance with the depreciation plan reviewed annually to take account of useful lives by single class of fixed asset. The effects of any changes in the useful life are recognized in the separate income statement prospectively.

Depreciation for the year 2020 is 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)	3% – 5.55%
Plant and equipment	3% - 50%
Manufacturing and distribution equipment	20%
Other	11% - 33%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	Gross carrying amount	12.31.2019 Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	226			226
Buildings (civil and industrial)	1,794		(1,229)	565
Plant and equipment	62,204	(5)	(53,267)	8,932
Manufacturing and distribution equipment	284		(259)	25
Other	2,124	(3)	(1,934)	187
Construction in progress and advance payments	656			656
Total	67,288	(8)	(56,689)	10,591

(million euros)	Gross carrying amount	12.31.2020 Accumulated impairment losses (*)	Accumulated depreciation	Net carrying amount
Land	232			232
Buildings (civil and industrial)	1,822		(1,251)	571
Plant and equipment	63,163	(13)	(54,490)	8,660
Manufacturing and distribution equipment	291		(270)	21
Other	2,217	(3)	(2,031)	183
Construction in progress and advance payments	676	(8)		668
Total	68,401	(24)	(58,042)	10,335

(*) Includes the amount of 8 million euros relative to Impairment losses accrued on the values of the tangible assets of the company TN Fiber S.r.l., merged into TIM S.p.A. on September 30, 2020, with income tax effects backdated to January 1, 2020.

With regard to the gross carrying amounts of non-current tangible assets, in 2020 disposals were made for a total value of 425 million euros, mainly in relation to fully depreciated assets. The most affected assets were: civil buildings (13 million euros), switching systems (9 million euros), infrastructures and broadband connections (147 million euros), rented equipment (46 million euros), poles (33 million euros) and underground and aerial network (157 million euros).

NOTE 6

RIGHTS OF USE ASSETS

This item decreased by 810 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	IFRS 16 reclassifications	Adoption of IFRS 16	Investments	Increases in lease contracts	Depreciation and amortization	Disposals	Other changes	12.31.2019
Property	—	1,406	2,364	33	588	(567)	(44)	(11)	3,769
Plant and equipment	—	228	545	11	263	(80)	(1)	13	979
Equipment	—	—	—	—	—	—	—	—	—
Other	—	141	—	—	10	(32)	(2)	—	117
Construction in progress and advance payments	—	64	—	16	—	—	—	(39)	41
Total	—	1,839	2,909	60	861	(679)	(47)	(37)	4,906

(million euros)	12.31.2019	Mergers/Conferment of Branches of Business	Investments	Increases in lease contracts	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12.31.2020
Property	3,769	—	12	687	(402)	—	(880)	(597)	2,589
Plant and equipment	979	6	9	191	(111)	—	(241)	525	1,358
Equipment	—	—	—	—	—	—	—	—	—
Other	117	—	—	11	(29)	—	(4)	(2)	93
Construction in progress and advance payments	41	—	37	—	—	—	—	(22)	56
Total	4,906	6	58	889	(542)	—	(1,125)	(96)	4,096

The data reflects the mergers by incorporation that took place respectively on September 30, 2020, on October 1, 2020 and on December 31, 2020, all with tax and accounting effects backdated to January 1, 2020, of TN Fiber S.r.l., TIM Vision S.r.l. and HR Services S.r.l. into TIM S.p.A. In particular, the values refer for 6 million euros to the acquisition following the merger of TN Fiber S.r.l. of the value relative to the rights of use conferred previously by TIM, as shareholder, and concerning the spaces available in the infrastructures owned by TIM within the Province of Trento. As a consequence of the merger and eliminations of the related reciprocal items, the net value has been reclassified from Rights of use to Plant and equipment under Tangible assets owned.

Since March 31, 2020, the new Master Service Agreement (MSA) between TIM S.p.A. and INWIT S.p.A., now jointly controlled by TIM-Vodafone, has been in effect, regulating hosting services on INWIT sites. In particular, the MSA regulates the following services: the availability of the electromagnetic and physical space for the installation and management of necessary equipment for the provision of mobile service and services for the supply of power and air conditioning systems;

- monitoring and security services;
- management and maintenance services;
- electricity supply service;
- measurement and monitoring service of the physical and electromagnetic space.

It is a bouquet of services to guarantee operators (Vodafone and TIM) the management of technological devices, which use the frequencies that are currently available to the two Operators, functional to the provision of mobile services to customers.

The effectiveness of the new MSA contract, which comes under the scope of the comprehensive operation involving the establishment - through the merger by incorporation of Vodafone Towers S.r.l. in INWIT with the consequent sale by the TIM Group of its controlling interest in INWIT - of the first Italian Tower Operator, has resulted in the following for TIM S.p.A.:

- the derecognition of rights of use related with previous lease agreements stipulated with Inwit (777 million euros) and with Vodafone (266 million euros included in the "Disposals" flow). The termination of previous lease agreements led to the recognition of net capital gains for approximately 1 million euros in the Separate Income Statement;

- the derecognition of finance liabilities with Inwit and Vodafone, related to previous lease agreements;
- the recognition of new rights of use for INWIT S.p.A. ("Increases in finance leasing contracts") and a corresponding financial liability for 368 million euros.

The new MSA also provides for accounting for the amounts in costs for services on an accruals basis, with the exception of the 3,500 strategic sites, which are accounted for as leases under IFRS 16, for a duration of 8 years, given that control of those strategic sites still belongs to TIM S.p.A.

Investments consist of the acquisition of IRU transmission capacity (16 million euros, of which 7 million booked under Construction in progress and advance payments) and incremental and improvement expenses incurred for leased property and non-property assets (42 million euros, of which 37 million euros was in Construction in progress and advance payments and improvements in progress).

Increases in leasing contracts include the higher value of the rights of use recorded as a result of new leases, increases of lease payments and renegotiations of agreements existing both land and buildings for office use and industrial relationship over time, to infrastructure sites for the mobile telephone network infrastructure and network.

In accordance with IFRS 16 (Leases), 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.

The item includes 368 million euros, related to the recognition, for the portion that can be configured as a lease, of the aforementioned new contract with the associate Inwit. It also includes 148 million euros, connected with the recording of the 2020 Guaranteed Minimum, pertaining to FY 2020, for the pay-per-use contract with Flash Fiber.

The item **Disposals** represents the book value of the assets from property lease contracts (and related improvements) issued in advance, net of the value of the residual financial debt. The item includes 1,043 million euros associated with the specified derecognition of the rights of use connected with the previous lease agreements entered into with INWIT and Vodafone, is noted.

The item **Other changes** includes the transfers during the year and the changes related to the lower value of rights of use recorded as a result of contractual changes during the year, mainly for lease liabilities under IFRS16.

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

The item **Property** includes buildings and land under financial lease contracts and the related building adaptations; they decreased by 1,180 million euros compared to the overall value recognized as at January 1, 2020, mainly following said operation relative to the Inwit and Vodafone contracts, classified as Property.

The item **Plant and equipment** mainly includes rights of use on infrastructures for telecommunications services. It increased by 379 million euros compared to the overall value recognized as of January 1, 2020, mainly following said operation relative to the Inwit and Vodafone contracts, classified as Plants.

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

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and December 31, 2019 can be summarized as follows:

(million euros)	Gross carrying amount	12.31.2019 Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Property	5,882	(13)	(2,100)	3,769
Plant and equipment	1,146		(167)	979
Equipment				—
Other	227		(110)	117
Construction in progress and advance payments	41			41
Total	7,296	(13)	(2,377)	4,906

(million euros)	12.31.2020			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Property	4,652	(13)	(2,050)	2,589
Plant and equipment	1,672		(314)	1,358
Equipment				—
Other	220		(127)	93
Construction in progress and advance payments	56			56
Total	6,600	(13)	(2,491)	4,096

With regard to the gross carrying amounts of rights of use of third party assets, in 2020 disposals were made for a total value of 1,553 million euros. The assets most affected were: rights of use over IRU fiber (13 million euros), improvements in third party establishments (17 million euros), rented land (64 million euros), rented properties (1,161 million euros), base transceiver stations (278 million euros) and leased cars (12 million euros).

NOTE 7

INVESTMENTS

These increased 384 million euros compared to December 31, 2019 and included:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Subsidiaries	7,209		6,825	
Associates and joint ventures	6	—	3	—
Other investments	30	30	33	33
Total	7,245	30	6,861	33

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

As permitted by IFRS 9, TIM S.p.A. now measures all Other Investments at fair value through other comprehensive income (FVTOCI).

In 2020 the transactions with subsidiaries, associates, joint ventures and other equity investments of TIM S.p.A. were the following:

- **Infrastrutture Wireless Italiane S.p.A. (INWIT):** on March 31, 2020, the merger by incorporation took place of Vodafone Towers S.r.l. into INWIT S.p.A., an operation that made it possible to establish the very first Italian Tower Operator. In particular, we report:
 - on April 23, 2020, a package of shares was transferred, equal to 4.3% of the share capital of INWIT, in an accelerated book-building procedure reserved for institutional investors;
 - on October 02, 2020, TIM and Ardian, a world leading private investment firm operating in infrastructures, completed the agreement announced on June 24, 2020 for a partial sharing of the investment in INWIT S.p.A. The operation entailed the purchase by a consortium of institutional investors led by Ardian of 49% of Daphne 3 S.p.A., a newly-established holding company controlled by TIM, to which TIM contributed 30.2% of the shares of INWIT S.p.A. The holding company has taken over from TIM - for the portion of INWIT shares transferred - in the shareholders' agreement stipulated between TIM and Vodafone Europe B.V., by virtue of which, they jointly control INWIT;
 - the residual direct equity investment held by TIM S.p.A. in INWIT, equal to 3% of the share capital, of INWIT, has been sold to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited. More specifically, on October 2, 2020, 1.2% was first sold and then on December 3, 2020, the remaining 1.8%.

Following the 2020 transactions, TIM S.p.A. has indirect control over INWIT through the subsidiary Daphne 3 S.p.A.

- **Noovle S.r.l.:** on May 21, 2020, TIM S.p.A. finalized the acquisition of 100% of the quotas in Noovle S.r.l., an Italian ICT consulting and system integration company, specialized in supplying cloud solutions and projects and one of Google Cloud's leading partners on the Italian market;
- **Daphne 3 S.p.A.:** company established on July 24, 2020; the company's corporate object is the assumption, holding, management and disposal of equity investments in INWIT - Infrastrutture Wireless Italiane S.p.A.;
- **TIM My Broker S.r.l.:** company established on August 4, 2020; the company purpose is mainly insurance intermediation activities pursuant to art. 106 of Legislative Decree no. 209 of September 7, 2005 as subsequently amended and supplemented;
- **TN Fiber S.r.l.:** was merged into TIM S.p.A. on September 30, 2020, with tax effects backdated to January 1, 2020;
- **TIM Vision S.r.l.:** was merged into TIM S.p.A. on October 1, 2020 with tax effects backdated to January 1, 2020;
- **HR Services S.r.l.:** was merged into TIM S.p.A. on December 31, 2020, with tax effects backdated to January 1, 2020;
- **Olivetti:** partial demerger of the "Digital School" BU in the favor of TIM S.p.A., with statutory and tax effects from December 1, 2020.

Movements during 2020 for each investment and the corresponding amounts at the beginning and end of the year are reported below. The list of investments in subsidiaries, associates and joint ventures at December 31, 2020 is presented in compliance with Article 2427 of the Italian Civil Code and reported in the Note "List of investments in subsidiaries, associates and joint ventures".

Investments

(thousands of euros)	Carrying amount at 12/31/2019	Mergers/ Demergers	Acq./ Subscr./ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/Reversals /Adj. Fair value	Other changes and reclassifications ^(*)	Total changes	Carrying amount at 12/31/2020
Investments in subsidiaries								
CD FIBER	50				(7)		(7)	43
FLASH FIBER	202,424		48,000			11	48,011	250,435
FIBERCOP	—		50				50	50
DAPHNE 3	—					340,161	340,161	340,161
HR SERVICES	575	(575)					(575)	—
OLIVETTI	—	(2,182)	25,000		(5,795)	(6,194)	10,829	10,829
NOOVLE S.p.A.	—		50				50	50
NOOVLE S.r.l.	—		12,743				12,743	12,743
TELECOM ITALIA CAPITAL	2,388						—	2,388
TELECOM ITALIA FINANCE	5,914,971						—	5,914,971
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO	—						—	—
TELECOM ITALIA SAN MARINO	7,565						—	7,565
TELECOM ITALIA SPARKLE	586,726					160	160	586,886
TELECOM ITALIA TRUST TECHNOLOGY	8,498					8	8	8,506
TELECOM ITALIA VENTURES	2,217				(371)		(371)	1,846
TELECONTACT CENTER	12,527					17	17	12,544
TELENERGIA	50						—	50
TELSY	14,517		5,000			2	5,002	19,519
TI AUDIT COMPLIANCE LATAM (in liquidation)	313				(132)		(132)	181
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES	—						—	—
TIM RETAIL (ex 4 G RETAIL)	15,108					8	8	15,116
TIM MY BROKER	—		10				10	10
TIM TANK	18,609		6,230				6,230	24,839
TIMVISION	761	(761)					(761)	—
TN FIBER	37,557	(37,557)					(37,557)	—
	6,824,856	(41,075)	97,083	—	(6,305)	334,173	383,876	7,208,732

(*) The column "Other changes and reclassifications" includes 117 thousand euros as fair value of the charges relating to the assignment of remuneration plans to employees of Telecom Group companies as part of the 2020 Broad-Based Share Ownership Plan.

(thousands of euros)	Carrying amount at 12/31/2019	Mergers/ Demergers	Acq./ Subscr./ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/Reversals /Adj. Fair value	Other changes and reclassifications	Total changes	Carrying amount at 12/31/2020
Investments in associates and joint ventures								
AREE URBANE (in liquidation)	—						—	—
ASSCOM INSURANCE BROKERS	20			(20)			(20)	—
INFRASTRUTTURA WIRELESS ITALIANE	—			(1,777,990)		1,777,990	—	—
NORDCOM	2,143						—	2,143
TIGLIO I	1,189						—	1,189
TIGLIO II (in liquidation)	119				(31)		(31)	88
TIMfin	—		2,940				2,940	2,940
Consorzio EO (in liquidation)	—						—	—
	3,471	—	2,940	(1,778,010)	(31)	1,777,990	2,889	6,360

(thousands of euros)	Carrying amount at 12/31/2019	Mergers/ Demergers	Acq./ Subscr./ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/Reversals /Adj. Fair value	Other changes and reclassifications	Total changes	Carrying amount at 12/31/2020
Investments in other companies								
BANCA UBAE	2,573						—	2,573
FIN. PRIV.(**)	20,648				(4,667)		(4,667)	15,981
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	3,832		613		50		663	4,495
ISTITUTO EUROPEO DI ONCOLOGIA	2,558				170		170	2,728
Other minor investments	3,265		678	(53)	(168)	—	457	3,723
	32,876	—	1,291	(53)	(4,615)	—	(3,377)	29,500
Total Investments	6,861,203	(41,075)	101,314	(1,778,063)	(10,951)	2,112,163	383,388	7,244,592

(**) Recognized investment measured at fair value through other comprehensive income (FVTOCI).

NOTE 8

NON-CURRENT AND CURRENT FINANCIAL ASSETS

Non-current and current financial assets were broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current financial assets		
Financial receivables and other non-current financial assets		
Financial receivables from subsidiaries	500	491
Financial receivables from associates and joint ventures	—	—
Financial receivables from other related parties	—	—
Financial receivables for lease contracts	17	16
Receivables from employees	38	40
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	500	530
Non-hedging derivatives	1,239	1,272
Other financial receivables	213	—
Total non-current financial assets (a)	2,507	2,349
Current financial assets		
Securities other than investments		
Measured at amortized cost (AC)	—	—
Measured at fair value through other comprehensive income (FVTOCI)	—	—
Measured at fair value through profit or loss (FVTPL)	—	—
	—	—
Financial receivables and other current financial assets		
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)	—	—
Financial receivables for lease contracts	44	54
Receivables from employees	12	12
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	46	48
Non-hedging derivatives	49	53
Financial receivables from parent companies	—	—
Financial receivables from subsidiaries	1	6
Financial receivables from associates and joint ventures	—	—
Other financial receivables	2	3
	154	176
Cash and cash equivalents	1,766	829
Total current financial assets (b)	1,920	1,005
Total financial assets (c)=(a+b)	4,427	3,354

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

Financial receivables for lease contracts (current and non-current) amounted to 61 million euros (70 million euros at December 31, 2019) and included the following contractual relationships recognized in accordance with the financial method envisaged by IFRS 16:

- commercial offers for Consumer and Business customers involving the rental of ADSL routers (7 million euros, 21 million euros at December 31, 2019);

- contracts for the rental of products to TIM customers with ancillary services ("full rent formula") and leasing contracts entered into in prior years by Teleleasing with TIM customers (1 million euros, 4 million euros at December 31, 2019);
- agreements for the sale of network infrastructure in IRU with deferred collection over time (32 million euros, 33 million euros at December 31, 2019) recognized using the financial method envisaged by IFRS 16 given the contractual term substantially close to the economic life of the asset;
- contracts for the lease of commercial products to customers, for an amount of 21 million euros (12 million euros at December 31, 2019). For the financial receivables for lease assets are offset by the financial debt for the corresponding leases payable.

Receivables from employees (current and non-current) amounted to 50 million euros and included the remaining amount due on loans granted.

Hedging derivatives amounting to 546 million euros (578 million euros at December 31, 2019), consisted of:

- hedged items classified as non-current assets/liabilities of a financial nature (500 million euros), mainly pertaining to the mark-to-market spot valuation component of cash flow hedge derivative contracts (of which 142 million euros entered into with Telecom Italia Finance S.A.) and fair value hedge derivative contracts;
- hedged items classified as current assets/liabilities of a financial nature (46 million euros), relating to the accrued income component of cash flow hedges and fair value hedges.

Non-hedging derivatives amounted to 1,288 million euros (1,325 million euros at December 31, 2019) and included the asset value of transactions that TIM S.p.A. carries out on behalf of Group companies under centralized treasury arrangements. This item is offset by the corresponding item classified in financial liabilities. At December 31, 2020, non-hedging derivatives consisted of:

- items classified under Non-current financial assets (1,239 million euros), which refer to the mark-to-market spot valuation component of the non-hedging derivatives;
- items classified as current financial assets (49 million euros), relating to the accrued income component on non-hedging derivative contracts.

Further details are provided in the Note "Derivatives".

Other financial receivables refer 200 million euros to the Vendor Loan that TIM S.p.A. is owed by Ardian (through the financial vector Impulse I) following the transaction by means of which TIM S.p.A. conferred 30.2% of INWIT's shares to Daphne 3.

Cash and cash equivalents increased by 937 million euros compared to December 31, 2019 and were broken down as follows:

(million euros)	12.31.2020	12.31.2019
Liquid assets with banks, financial institutions and post offices	1,673	828
Checks, cash and other receivables and deposits for cash flexibility	—	—
Receivables from subsidiaries	93	1
Total	1,766	829

The different technical forms of investing available cash can be analyzed as follows:

- maturities: investments have a maximum maturity of three months;
- counterparty risk: investments are made with leading banking and financial institutions with high credit quality and with a rating of at least BBB- according to Standard & Poor's or similar rating agencies;
- Country risk: deposits have been made mainly in major European financial markets.

NOTE 9

MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets at December 31, 2020 breaks down as follows:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Miscellaneous non-current receivables				
Miscellaneous receivables from subsidiaries	3	—	5	—
Miscellaneous receivables from associates	—	—	—	—
Receivables due from others	46	16	39	2
(a)	49	16	44	2
Other non-current assets				
Deferred contract costs	1,643	—	1,680	—
Other cost deferrals	41	—	22	—
(b)	1,684	—	1,702	—
Total	(a+b) 1,733	16	1,746	2

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

Miscellaneous non-current receivables

The item mainly includes current income tax receivables of 31 million euros (37 million at December 31, 2019).

Other non-current assets

This item dropped by 18 million euros compared to December 31, 2019 and includes:

- **Contract costs deferred** for 1,643 million euros (1,680 million euros at December 31, 2019), mainly related to the deferral of costs connected to the activation and acquisitions of new contracts with customers. Contract costs (mainly technical setup fees and commissions to the sales network) are deferred and recognized in the separate income statement according to the expected duration of the contractual relationship with customers (on average around 3 years for the mobile business and 7 years for the fixed business). Total deferred contract costs (non-current and current) amounted to 2,301 million euros (2,324 million euros at December 31, 2019); the breakdown of the total deferred contract costs (non-current and current) at December 31, 2020 is provided below.

(million euros)	12.31.2020	12.31.2019
Deferred contract costs		
Non-current deferred contract costs	1,643	1,680
Current deferred contract costs	658	644
Total	2,301	2,324

(million euros)	12.31.2019	Increase	Release to income statement	Other changes	12.31.2020
Contract acquisition costs	1,298	389	(393)		1,294
Contract execution costs	1,026	231	(250)		1,007
Total deferred contract costs	2,324	620	(643)		2,301

Total deferred contract costs will be recognized in the income statement of future years of the Company and in particular, for approximately 658 million euros, in 2021, based on the amount at December 31, 2020 without taking into account the new deferred portions. More specifically:

(million euros)	12.31.2020	year of recognition in the income statement					
		2021	2022	2023	2024	2025	after 2025
Deferred contract costs							
Contract acquisition costs	1,294	396	309	220	155	109	105
Contract execution costs	1,007	262	236	197	149	94	69
Total	2,301	658	545	417	304	203	174

- **Other deferred costs** of 41 million euros (22 million euros at December 31, 2019) mainly refer to costs for leased assets.

NOTE 10

CURRENT AND DEFERRED INCOME TAXES

CURRENT INCOME TAX RECEIVABLES

Non-current income tax receivables (classified as Miscellaneous receivables and other non-current assets) amounted to 31 million euros at December 31, 2020 (37 million euros at December 31, 2019); they relate to non-assigned receivables for taxes and interest resulting from the recognized deductibility from IRES tax of the IRAP tax calculated on labor costs, relating to years prior to 2012, following the entry into force of Italian Decree Law 16/2012.

Current income tax receivables amount to 40 million euros, down 27 million euros compared to December 31, 2019 (67 million euros), and mainly include the IRAP tax receivable for surplus payments and withholdings of 5 million euros and the IRAP receivable of TIM for 29 million euros for surplus down payments made and for the benefit deriving from the presentation of supplementary declarations following the ruling signed on August 3, 2020 with the Revenue Agency for the application of the patent box benefit.

In addition, as regards IRES, receivables were transferred for 303 million euros, also originating from the patent box benefit.

Tax assets and deferred tax liabilities

The net balance is composed as follows:

(million euros)	12.31.2020	12.31.2019
Deferred tax assets	7,337	882
Deferred tax liabilities	—	(2)
Total	7,337	880

As at December 31, 2020, TIM S.p.A. benefits from the possibility of realigning the tax values to the greater value of the assets booked, specifically the value of goodwill of 23,051 million euros, as envisaged by Decree Law 104/2020, Art. 110, subsections 8 and 8 bis, which enables the tax recognition of the value of goodwill starting FY 23051. This will result, in exchange for payment of substitute tax in the amount of 3% of the realigned value (692 million euros), in the deduction over 18 years, starting 2021, of the tax amortization of the realigned value of 23,051 million euros. These deductions will generate benefits in terms of IRES and IRAP recognized as at December 31, 2020 amongst deferred tax assets for 6,569 million euros.

Deferred tax assets recorded are entirely recoverable, taking into account the possible absorption through future taxable income of the Company, including considering the carrying forward, with no limit in time, of the IRES losses that may be verified in the event of a temporary incapacity of taxable income.

The presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally permitted. The composition of the gross amounts prior to offsetting is presented below:

(million euros)	12.31.2020	12.31.2019
Deferred tax assets	7,381	928
Deferred tax liabilities	(44)	(48)
Total	7,337	880

The temporary differences which made up this line item at December 31, 2020 and 2019, as well as the movements during 2020 were as follows:

(million euros)	12.31.2019	Recognized in profit or loss	Recognized in equity	Other changes	12.31.2020
Deferred tax assets:					
Provisions for pension fund integration Law 58/92	5	(1)			4
Provisions for risks and charges	308	(142)		1	167
Provision for bad debts	101	(11)			90
Financial instruments	359		24		383
Taxed depreciation and amortization	101	(9)			92
Discounting of provision for employee severance indemnities	28	(1)	(2)		25
Tax losses	—	18			18
Tax realignment pursuant to Decree Law 104/2020 Art. 110	—	6,569			6,569
Other deferred tax assets	26	5		2	33
Total	928	6,428	22	3	7,381
Deferred tax liabilities:					
Accelerated depreciation	(5)	1			(4)
Deferred gains	(1)	1			—
Financial instruments	(2)		(1)		(3)
Bond issue expense	(7)	2			(5)
Other deferred tax liabilities	(33)	1			(32)
Total	(48)	5	(1)	—	(44)
Total deferred tax assets net of deferred tax liabilities	880	6,433	21	3	7,337

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2020 were the following:

(million euros)	Within 1 year	Beyond 1 year	Total as at 12.31.2020
Deferred tax assets	539	6,842	7,381
Deferred tax liabilities	(8)	(36)	(44)
Total deferred tax assets net of deferred tax liabilities	531	6,806	7,337

Income tax payables

Current tax payables come to 231 million euros at December 31, 2020 (17 million euros at December 31, 2019) and relate to the first installment of substitute tax pursuant to Decree Law 104/2020, Art. 110, paragraphs 8 and 8 bis; **non-current tax payables** come to 463 million euros at December 31, 2020 (19 million euros at December 31, 2019) and relate for 461 million euros to the additional two installments of substitute tax pursuant to Decree Law 104/2020, Art. 110, paragraphs 8 and 8 bis.

Income tax expense

The **income tax expense** for the years ended December 31, 2020 and 2019 is detailed below.

(million euros)	2020	2019
IRAP taxes for current year	62	96
IRES taxes for current year	—	65
Substitute tax pursuant to Decree Law 104/2020 Art. 110	692	—
Expenses/(income) from tax consolidation	—	6
Current taxes of prior years	(316)	(32)
Total current taxes	438	135
Deferred income taxes	168	45
Tax realignment pursuant to Decree Law 104/2020 Art. 110	(6,569)	—
Deferred taxes of prior years	(32)	10
Total deferred taxes	(6,433)	55
Total income tax expense for the year	(5,995)	190

The current IRES tax rate is 24%, while the effective IRAP rate is 4.5%; the rate of substitute tax for the realignment of goodwill is 3%.

The income for previous years' current taxes (316 million euros) reflects the effects of the actual tax return with respect to the estimate made in the 2019 financial statements on the basis of the information available at the time. It also benefits from the impact consequent to the definition of the ruling signed on August 3, 2020 with the Revenue Agency for the application of the "patent box" benefit (299 million euros, of which 254 million euros IRES and 45 million euros IRAP).

Income tax also benefits from the recording of deferred tax assets as a consequence of the tax recognition of higher amounts booked in accordance with Decree Law 104/2020, Art. 110, paragraph 8 and 8 bis for a total of 6,569 million euros (of which 5,532 million euros IRES and 1,037 million euros IRAP).

The reconciliation between the theoretical tax charge, calculated on the basis of the IRES tax rate in effect at December 31, 2020 (24%), and the effective tax charge in the separate financial statements is as follows:

(million euros)	2020	2019
Profit (loss) before tax		
From continuing operations	1,166	572
Total profit (loss) before tax	1,166	572
Theoretical income tax	280	137
Income tax effect on increases (decreases) in variations:		
dividends recognized in income	(75)	(32)
Impairment losses, gains and losses on investments	(12)	(1)
non-deductible depreciation, amortization and impairments	3	4
non-deductible costs	3	37
other items (accelerated depreciation and amortization, economic growth aid (ACE), etc.)	(51)	(35)
Previous years' IRES (patent box, etc.)	(299)	(19)
Deferred IRES tax benefit pursuant to DL 104/2020, Art. 110	(5,532)	—
Effective income tax recognized in income statement, excluding IRAP tax and Substitute tax	(5,683)	91
IRAP (including patent box benefit)	33	99
Deferred IRAP tax benefit pursuant to DL 104/2020, Art. 110	(1,037)	—
Substitute tax pursuant to Decree Law 104/2020 Art. 110	692	—
Total effective taxes recognized in the Income Statement	(5,995)	190

For a better understanding of the above reconciliation, the impacts of IRAP and the substitute tax pursuant to Decree-Law 104/2020 art. 110 have been shown separately so as to avoid any distorting effect arising from the fact that this tax is calculated on a different tax base to the pre-tax profit.

NOTE 11

INVENTORIES

At December 31, 2020, these amounted to 144 million euros (155 million euros at December 31, 2019) and mainly consisted of fixed and mobile telecommunications equipment and terminals and the related accessories.

This item decreased by 11 million euros compared to December 31, 2019, mainly due to the reduction in the year by in both purchases and consumption, with reference to equipment and accessories for mobile telephony, in application of a more targeted commercial and procurement policy.

No inventories are pledged as collateral.

NOTE 12

TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets at December 31, 2020 breaks down as follows:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Trade receivables:				
Receivables from customers	1,423	1,423	1,531	1,531
Receivables from other telecommunications operators	677	677	693	693
Receivables from subsidiaries	163	163	245	245
Receivables from associates and joint ventures	30	30	—	—
Receivables from other related parties	3	3	2	2
Customer collections pending credit	9	9	13	13
(a)	2,305	2,305	2,484	2,484
Miscellaneous current receivables				
Receivables from subsidiaries	8	—	9	—
Receivables from associates and joint ventures	7	—	—	—
Receivables from other related parties	—	—	—	—
Other receivables	202	78	313	112
(b)	217	78	322	112
Other current assets				
Contract assets	23	23	31	31
Deferred contract costs	658	—	644	—
Other cost deferrals	201	—	167	—
Other	60	—	83	—
(c)	942	23	925	31
Total	(a+b+c) 3,464	2,406	3,731	2,627

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

The analyses of the aging of the financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2020 and December 31, 2019 are provided below:

		Overdue:					
(million euros)	12.31.2020	of which not	of which overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	2,406	1,976	430	45	83	59	243

		Overdue:					
(million euros)	12.31.2019	of which not	of which overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	2,627	2,125	502	129	54	76	243

Financial instruments included in trade and miscellaneous receivables and other current assets include Assets deriving from contracts with customers (Contract Assets) for 23 million euros; they decreased by 221 million euros compared to December 31, 2019. In particular:

- **Current net receivables:** are down by 149 million euros, mainly due to the significant reduction in subscription receivables, consequent to the greater sales of products/services with payment by installments and the lesser receivables for sales and prepaid offers. This trend is juxtaposed with the increase in wholesale receivables (due to the dynamics of the fewer transfers without recourse and repricing), roaming receivables and miscellaneous billing receivables;
- **Overdue net due receivables:** are down by 72 million euros, mainly following the reduction in subscription receivables and receivables related to miscellaneous billing items, phenomena concentrated in the portion of receivables due in the short-term (0-90 days) and that with high aging (between 181 and 365 days).

Trade receivables

These come to 2,305 million euros (2,484 million euros at December 31, 2019) and are net of the related provision for bad debts of 496 million euros (549 million euros at December 31, 2019); in particular, the provision for bad debt at December 31, 2020 is impacted by the provisions made in 2020 for a total of 187 million euros, of which 41 million euros are non-recurring in relation to the COVID-19 emergency, which resulted in a worsening of Expected Credit Loss of part of the customer base due to the anticipated deterioration of the macroeconomic context. Further details are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

Movements in the provision for bad debts were as follows:

(million euros)	12.31.2020	12.31.2019
At January 1	549	541
Provision charges to the income statement	187	193
Draw downs and other changes	(240)	(185)
At December 31	496	549

Trade receivables decreased by 179 million euros compared to December 31, 2019, mainly as a result of the changes in the receivables due from other operators, and from customers. In particular, we report:

- Receivables from customers: amounted to 1,423 million euros and dropped by 108 million euros compared to December 31, 2019;

- Receivables from other operators: amounted to 677 million euros and fell by 16 million euros compared to December 31, 2019;
- Receivables from consolidated subsidiaries: amounted to 163 million euros and fell by 82 million euros compared to December 31, 2019; the main components of this item are the supply of TLC equipment and services to Flash Fiber (96 million euros), TIM Retail (17 million euros), Telecom Italia Sparkle (18 million euros), TIM S.A. (12 million euros), Olivetti (6 million euros), Telenergia (7 million euros) and Telecontact (3 million euros);
- Receivables from associates: amounted to 30 million euros (not present at December 31, 2019) and relate to the supply of services to INWIT, which has become an associate.

Miscellaneous receivables (current)

Amounted to 217 million euros (net of a provision for bad debts of 48 million euros), decreasing by 105 million euros compared to December 31, 2019. They include:

- **Receivables from subsidiaries:** these amounted to 8 million euros (9 million euros at December 31, 2019) and mainly were related to receivables from Group companies for the tax consolidation;
- **Receivables from associates and joint venture:** amounted to 7 million euros (not present at December 31, 2019) and relate to Inwit, which has become an associate;
- **Other receivables:** totaled 202 million euros and break down as follows:

(million euros)	12.31.2020	12.31.2019
Advances to suppliers	3	2
Receivables from employees	8	9
Tax receivables	1	35
Receivables for grants from the government and public entities	29	44
Sundry receivables	161	223
Total	202	313

Tax receivables amounted to 1 million euros and are essentially represented by credit amounts resulting from tax returns, tax credits, as well as VAT credits on the acquisition of motor vehicles and related accessories requested for reimbursement pursuant to Law Decree no. 258/2006 converted with amendments by Law no. 278/2006.

Receivables for grants from the government and public entities (29 million euros) mainly relate to Ultra-Broadband-UBB and Broadband-BB projects. The grants are recognized to the income statement when the related systems are commissioned.

Sundry receivables mainly include:

- receivables for with-recourse assignments to factoring companies (37 million euros);
- receivables from social security and pension institutions (24 million euros);
- miscellaneous receivables from other TLC operators (34 million euros);
- receivables for the Universal Service (32 million euros).

Other current assets

Other current assets amounted to 942 million euros and increased by 17 million euros compared to December 31, 2019; they included:

- **Assets resulting from contracts with customers - Contract Assets** (23 million euros, 31 million euros at December 31, 2019): these refer to the advance recognition of revenues for those bundle contracts (such as product and service packages) with the individual Performance Obligations with different timing for their recognition, in which goods recognized "at point in time" are sold at a discounted price, or for those contracts which, envisaging a discount for a period of time less than the minimum contract duration, pursuant to IFRS 15 need the discount to be reallocated over the minimum contract duration. Contract Assets - net of the related write-down provision of 2 million euros - are down by 8 million euros compared to December 31, 2019, since the reversal to the income statement of the previously accumulated balance was substantially offset by the need to distribute discounts granted to customers temporally over the minimum contractual term, with particular reference to those connected with the impact of COVID-19;

- **Deferred contract costs** (658 million euros, 644 million euros at December 31, 2019): contract costs (mainly technical setup fees and commissions to the sales network) are deferred and recognized in the separate income statement according to the expected duration of the contractual relationship with customers (on average around 3 years for the mobile business and 7 years for the fixed business). For additional details on the deferred contract costs and their movement during the year, please refer to the Note "Miscellaneous receivables and other non-current assets";
- **Other cost deferrals:** amounted to 201 million euros and mainly related to:
 - 148 million euros for the deferral of costs related to rental fees and other costs of leased assets;
 - 28 million euros for the deferral of costs for the purchase of products and services;
 - 19 million euros for the deferral of after-sales expenses on application offers;
 - 4 million euros for insurance premiums;
 - 2 million euros for maintenance fees.
- **Other** (60 million euros, 83 million euros at December 31, 2019): these include approximately 1 million euros in receivables for works from the subsidiary Flash Fiber. The decrease compared to December 31, 2019 was mainly linked to lower receivables from network jobs for Public Administration bodies.

NOTE 13

DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

“Discontinued operations/Non-current assets held for sale” are absent at December 31, 2020.

At December 31, 2019, they totaled 828 million euros and related to the carrying amount of the investment in the company INWIT S.p.A. classified in this line item following the outcome of the 2019 Shareholders' Meeting which had approved the merger by incorporation of Vodafone Towers S.r.l. into INWIT, with the resulting sale by the TIM Group of its controlling interest in INWIT, which is highly likely to be concluded by the end of 2020. On March 31, 2020 the merger by incorporation of Vodafone Towers S.r.l. with INWIT S.p.A. was completed.

Further details are provided in the Note “Investments” of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

NOTE 14

EQUITY

Composed as follows:

(million euros)	12.31.2020	12.31.2019
Capital issued	11,677	11,677
less: Treasury shares	(19)	(21)
Share capital	11,658	11,656
Additional paid-in capital	2,133	2,094
Legal reserve	2,313	2,294
Other reserves:		
Merger surplus reserve	1,734	1,722
Other	(528)	(465)
Total other reserves	1,206	1,257
Retained earnings, including profit (loss) for the year	7,698	873
Total	25,008	18,174

Movements in share capital during 2020 are presented in the following tables:

Reconciliation between the number of shares outstanding at 12.31.2019 and at 12.31.2020

(number of shares)		At 12/31/2019	Share assignment/issue	As at 12.31.2020	% on the Share Capital
Ordinary shares issued	(a)	15,203,122,583	126,343,913	15,329,466,496	71.78
less: treasury shares	(b)	(37,672,014)	2,492,305	(35,179,709)	
Ordinary shares outstanding	(c)	15,165,450,569	128,836,218	15,294,286,787	
Savings shares issued and outstanding	(d)	6,027,791,699	—	6,027,791,699	28.22
Total shares issued	(a+d)	21,230,914,282	126,343,913	21,357,258,195	100.00
Total shares outstanding	(c+d)	21,193,242,268	128,836,218	21,322,078,486	

Reconciliation between the value of shares outstanding at 12.31.2019 and at 12.31.2020

(thousands of euros)		Share capital at 12/31/2019	Change in share capital	Share capital at 12/31/2020
Ordinary shares issued	(a)	8,361,718	19,612	8,381,330
less: treasury shares	(b)	(20,720)	1,485	(19,235)
Ordinary shares outstanding	(c)	8,340,998	21,097	8,362,095
Savings shares issued and outstanding	(d)	3,315,285	(19,612)	3,295,673
Total share capital issued	(a+d)	11,677,003	—	11,677,003
Total share capital outstanding	(c+d)	11,656,283	1,485	11,657,768

Share capital increased by 1,485 thousand euros on December 31, 2019 following the assignment to beneficiaries of the 2016-2019 Special Award for a total of 2,492,305 ordinary treasury shares.

Disclosure on share capital

The ordinary and savings shares of TIM S.p.A. are listed in Italy (FTSE index).

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emption right can be excluded to the maximum extent of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Company sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of equity, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of funding and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the financial markets of the euro, U.S. dollar and Pound sterling areas to minimize costs), taking care to reduce the refinancing risk.

The remuneration of equity is proposed by the Board of Directors to the Shareholders' Meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Company constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Privileges of savings shares

The privileges of TIM S.p.A. savings shares are indicated below:

- the profit shown in the duly approved financial statements, after deducting the amount to be allocated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the 0.55 euros per share;
- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders' meeting, the remaining profit shall be allocated among all the shares, so that savings shares are entitled to higher overall dividends than ordinary shares would be entitled to the extent of 2% of 0.55 euros per share;
- when, in any one year, dividends of below 5% of the 0.55 euros per share are paid to the savings shares, the difference is determined as an increase of the privileged dividend in the next two subsequent years;
- in the event of a distribution of reserves, savings shares have the same rights as the other shares. Moreover, when there is no profit or insufficient profit is reported in the financial statements for a given year to satisfy the aforesaid savings shares privileges, the Shareholders' Meeting called to approve those financial statements may choose to satisfy the dividend right and/or the higher dividend right by distributing available reserves. The distribution of available reserves for such payments excludes the application of the mechanism extending the right to the preferred dividend not paid through the distribution of profits for the following two years;
- the reduction of share capital as a result of losses does not affect the savings shares except for the amount of the loss which is not covered by the portion of the share capital represented by the other shares;
- upon the wind-up of TIM S.p.A., the savings shares have a pre-emption right in the reimbursement of capital up to the amount of 0.55 euros per share;
- in the event of the cessation of trading in the Company's ordinary or savings shares, the holder of savings shares may ask TIM S.p.A. to convert his/her shares into ordinary shares, using the method selected during a special session of the shareholders' meeting called for that purpose within two months of being excluded from trading.

Share capital carries a restriction on tax suspension for an amount of 11,104, subsection 8, million euros (1,191 million at December 31, 2019). The increase on December 31, 2019 of 9,913 million euros meets the condition laid down by Decree Law 104/2020, Art. 110, subsection 8, in connection with the tax recognition of the higher booked values.



Additional paid-in capital at December 31, 2020 amounted to 2,133 million euros and increased by 39 million euros compared to December 31, 2019, following the November 27, 2020 issue of 126,343,913 Telecom Italia ordinary shares to subscribers of the 2020 Broad-Based Share Ownership Plan. For further details, please refer

to the Note “Equity Compensation Plans”. The share premium reserve is entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.

The **Legal reserve** at December 31, 2020, was 2,313 million euros, up by 19 million euros compared to December 31, 2019 due to the allocation of FY 2019 profits. Note that the reserve, in addition to the amount of 1,835 million euros already restricted at December 31, 2019, is further restricted for 478 million euros in tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.

Other reserves totaled 1,206 million euros at December 31, 2020, decreasing by 51 million euros compared to December 31, 2019.

The Other reserves moved through the Statements of Comprehensive Income are broken down as follows:

- Reserve for remeasurements of employee defined benefit plans (negative 106 million euros): the reserve increased by 5 million euros compared to December 31, 2019, following the recognition of employee severance indemnity actuarial gains for the year 2020, after the net fiscal impact;
- Reserve for fair value adjustment of hedging derivative instruments (a negative 1,214 million euros, down 74 million euros compared to December 31, 2019): this reserve is related to the accounting of cash flow hedge transactions. In particular, it refers to unrealized gains and losses, net of the related tax effect, arising from the fair value adjustment of the financial instruments designated as cash flow hedges;
- Reserve for financial assets measured at fair value through other comprehensive income (10 million euros): this reserve decreased by 2 million euros compared to December 31, 2019.

The Other reserves also include:

- Merger surplus reserve (1,734 million euros) increased by 12 million euros compared to December 31, 2019, following the merger of HR Services S.r.l. with TIM S.p.A., which took place on December 31, 2020, with accounting and tax effects backdated to January 1, 2020. The merger surplus reserve is entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.
- Reserve for other equity instruments: this reserve amounted to 203 million euros (up by 3 million euros compared to December 31, 2019) and consisted of:
 - the amount of the 2020 Broad-Based Share Ownership Plan (5 million euros);
 - the amount of the convertible bond maturing 2015-2022 (186 million euros);
 - the amount of the 2018-2020 Long Term Incentive Plan, approved by the Shareholders' Meeting on April 24, 2018 (6 million euros);
 - the amount of the 2020-2022 Long Term Incentive Plan, approved by the Shareholders' Meeting on April 23, 2020 (6 million euros).

For further details, please refer to the Note “Equity Compensation Plans”.

The equity for other instruments reserve for 142 million euros is entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.

- Unavailable reserve originating from the application of Article 7, paragraph 7 of Italian Legislative Decree 38/2005 (521 million euros): unchanged from December 31, 2019. This reserve is entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.
- Miscellaneous reserves (58 million euros). These reserves are entirely restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8.

Retained earnings (accumulated losses), including profit for the year, was positive by 7,698 million euros at December 31, 2020, with an increase of 6,825 million euros compared to December 31, 2019. The movements are connected to the following changes:

- increase of 7,161 million euros referred to 2020 profits;
- reduction of 317 million euros as a result of the distribution of dividends referred to the 2019 financial statements, as approved by the Shareholders' Meeting of April 23, 2020;
- reduction of 19 million euros, connected with the provision made to the legal reserve of 5% of the FY 2019 profit, as approved by the Shareholders' Meeting of April 23, 2020.

Accrued profits (losses), including profit for the year for 7,380 million euros, are restricted under tax suspension in accordance with Decree Law 104/2020, Art. 110, subsection 8. The following statement provides additional disclosure on equity and is prepared pursuant to Article 2427, number 7-bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in the three-year period 2018-2020.

Summary pursuant to Article 2427, no. 7-bis

Nature/description (million euros)	Amount at 12.31.2020	Potential utilization	Amount available	Summary of the amounts utilized in the three-year period 2018- for loss for other	
				for loss	for other
Share capital	11,658				
Capital reserves:					
Additional Paid-in capital	2,134	A,B,C	2,134		
Legal reserve	1,953	B			
Reserve for other equity instruments	203	B			
Other reserves	64	A,B,C	64		
Reserve for remeasurements of defined benefit plans	57	A,B,C	57		
Reserve pursuant to Italian Legislative Decree 38/2005, Article 7, paragraph 7	521	B			
Merger surplus reserve	1,679	A,B,C	1,679		
Profit reserves:					
Additional Paid-in capital	(1)	A,B,C	(1)		
Legal reserve	360	B			
Reserve pursuant to Article 34, Italian Law 576/1975	—	A,B,C	—	13	
Sundry reserves	12	A,B,C	12		
Reserve for fair value adjustment of cash flow hedges and related underlying instruments	(1,214)		—		
Reserve for available-for-sale financial assets	10	B			
Reserve for remeasurements of defined benefit plans	(163)	A,B,C	(163)		
Merger surplus reserve	55	A,B,C	55		
Profits carried forward	537	A,B,C	537	1,841	166
Total	17,865		4,374	1,854	166
Treasury shares			(37)		
Amount not distributable ⁽¹⁾			(23)		
Residual distributable percentage			4,314		

Key:

A = for increases in capital;

B = for loss coverage;

C = for distribution to shareholders

⁽¹⁾ Represents the amount not distributable as the part of additional paid-in capital needed to supplement the legal reserve to reach 1/5 of the share capital.

Specifically, the amounts shown in the column "Summary of the amounts utilized in the three-year period 2018/2020 – for other reasons" relate to the distribution of dividends.

At December 31, 2020, the Company had tax-suspended reserves of 14,281 million euros (1,835 million euros at 12.31.2019), subject to taxation in the event of distribution, on which deferred taxes had not been allocated as their distribution is not foreseen. The increase of 12,446 million euros meets the condition laid down by Decree Law 104/2020, Art. 110, subsection 8, in connection with the tax recognition of the higher booked values. The total restriction on tax suspension for an amount of 22,359 million euros is set as follows:

- share capital for 9,913 million euros;
- designated reserves for 12,446 million euros (as identified previously).

The table below shows the restrictions, pursuant to Article 109, paragraph 4, letter b) of TUIR, relating to off-book deductions effected for income tax purposes in past years:

(million euros)

Off-book deductions at December 31, 2019	22
Reversal for taxation during the year	(3)
Off-book deductions at 12.31.2020	19
Deferred taxes (IRES and IRAP)	(4)
Restriction on equity at 12.31.2020	15

This regime imposes a restriction on all equity reserves, without distinction, for an amount equal to the off-book deductions net of the relative deferred taxes provided. This restriction remains until such time as the excess tax deductions and consequent taxation are recovered in the books.

More specifically, compared with the situation at December 31, 2019, the deductions decreased by 3 million euros as a result of taxation during the year.

Therefore, taking into account the residual deductions effected in prior years and not covered by the fiscal realignment carried out in accordance with Italian Law 244 dated December 24, 2007, the total restriction on equity in the separate financial statements amounts to 15 million euros.

Future potential changes in share capital

The table below shows future potential changes in share capital, based on the issuance of the convertible bond by TIM S.p.A. in March 2015, in the 2020 Broad-Based Share Ownership Plan and plans for long-term share incentives, still outstanding at December 31, 2020:

	Number of maximum shares issuable	Share capital (thousands of euros)	Additional paid-in capital (thousands of euros)	Subscription price per share (euros)
Capital increases already approved (ordinary shares)				
2020 Broad-based Share Ownership Plan (free issue) (*)	42,114,637			
2020-2022 Long Term Incentive Plan (free issue)	180,000,000			
Stock Options	222,114,637			
2015 Convertible Bond (ordinary shares) (**)	1,112,718,371	2,000,000	N.A.	N.A.
Bonds	1,112,718,371	2,000,000		
Total	1,334,833,008	2,000,000		

(*) The maximum number of free issues that can be issued is obtained by applying the assignment ratio of one third of the 126,343,913 new ordinary shares issued in exchange for payment on November 27, 2020 (equal to 99.09% of the 127,500,000 offered).

(**) The number of shares potentially issuable shown may be subject to adjustments.

Further information is provided in the Notes "Non-current and current financial liabilities" and "Equity compensation plans".

NOTE 15

NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

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

(million euros)	12.31.2020	12.31.2019
Non-current financial liabilities		
Non-current financial payables		
Bonds	12,548	13,193
Convertible bonds	1,958	1,925
Payables to banks	2,649	3,832
Payables to other lenders	29	16
Payables due to subsidiaries	4,204	4,285
	21,388	23,251
Non-current financial liabilities for lease contracts		
Payables to subsidiaries	497	997
Payables to associates	313	—
Payables to others	2,696	3,005
	3,506	4,002
Other non-current financial liabilities		
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,813	1,659
Non-hedging derivatives	1,239	1,272
Deferred income	—	—
	3,052	2,931
Total non-current financial liabilities (a)	27,946	30,184
Current financial liabilities		
Current financial payables		
Bonds	858	1,597
Convertible bonds	6	6
Payables to banks	2,013	687
Payables to other lenders	116	110
Payables due to subsidiaries	247	1,281
Payables to associates	—	—
	3,240	3,681
Current financial liabilities for lease contracts		
Payables to subsidiaries	14	270
Payables to associates	50	—
Payables to others	399	396
	463	666
Other current financial liabilities		
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	53	53
Non-hedging derivatives	49	53
Deferred income	—	—
	102	106
Total Current financial liabilities (b)	3,805	4,453
Total financial liabilities (Gross Financial Debt) (a+b)	31,751	34,637

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

Gross financial debt according to the original currency of the transaction is as follows:

	12.31.2020 (millions of foreign currency)	12.31.2020 (million euros)	12.31.2019 (millions of foreign currency)	12.31.2019 (million euros)
USD	2,507	2,043	2,506	2,231
GBP	389	433	389	457
YEN	20,000	158	20,031	165
EURO		29,117		31,784
		31,751		34,637

The breakdown of gross financial debt by effective interest-rate bands applicable to the original transaction is provided below, excluding the effect of any derivative hedging instruments:

(million euros)	12.31.2020	12.31.2019
Up to 2.5%	7,862	9,445
From 2.5% to 5%	14,282	14,654
From 5% to 7.5%	4,111	5,005
From 7.5% to 10%	1,730	1,829
Over 10%	4	77
Accruals/deferrals, MTM and derivatives	3,762	3,627
	31,751	34,637

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

(million euros)	12.31.2020	12.31.2019
Up to 2.5%	13,232	13,462
From 2.5% to 5%	8,515	11,183
From 5% to 7.5%	4,508	4,459
From 7.5% to 10%	1,730	1,829
Over 10%	4	77
Accruals/deferrals, MTM and derivatives	3,762	3,627
	31,751	34,637

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

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

(million euros)	2021	maturing by Dec. 31 of the year:					After 2025	Total
		2022	2023	2024	2025			
Convertible bonds	564	3,101	2,417	3,222	2,000	3,670		14,974
Loans and other financial liabilities	1,201	1,368	1,244	174	573	3,863		8,423
Finance lease liabilities	396	437	393	391	374	1,911		3,902
Total	2,161	4,906	4,054	3,787	2,947	9,444		27,299
Current financial liabilities	1,127	—	—	—	—	—		1,127
Total	3,288	4,906	4,054	3,787	2,947	9,444		28,426

The main components of financial liabilities are commented below.

Bonds are broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current portion	12,548	13,193
Current portion	858	1,597
Total carrying amount	13,406	14,790
Fair value adjustment for effect of fair-value hedge transactions and measurement at amortized cost	(432)	(424)
Total nominal repayment amount	12,974	14,366

The convertible bonds include the unsecured equity-linked bond for 2,000 million euros, with a coupon of 1.125%, issued by TIM S.p.A., convertible into newly-issued ordinary shares maturing in 2022.

This item was broken down as follows:

(million euros)	12.31.2020	12.31.2019
Non-current portion	1,958	1,925
Current portion	6	6
Total carrying amount	1,964	1,931
Fair value adjustment and measurements at amortized cost	36	69
Total nominal repayment amount	2,000	2,000

The nominal repayment amount of bonds and convertible bonds totaled 16,366 million euros, up by 517 million euros compared to December 31, 2019 (15,849 million euros) as a result of new issues and repayments in 2019. The following table lists the bonds issued by TIM S.p.A., expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (million euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/20 (%)	Market value at 12/31/20 (million euros)
Bonds issued								
Euro	564	564	4.500 %	1/23/2014	1/25/2021	99.447	100.527	567
Euro	^(a) 217	217	6-month Euribor (base 365)	1/01/2002	1/01/2022	100.000	100.000	217
Euro	884	884	5.250 %	2/10/2010	2/10/2022	99.295	106.072	938
Euro	^(b) 2,000	2,000	1.125 %	3/26/2015	3/26/2022	100.000	99.757	1,995
Euro	1,000	1,000	3.250 %	1/16/2015	1/16/2023	99.446	105.512	1,055
GBP	375	417	5.875 %	5/19/2006	5/19/2023	99.622	109.783	458
Euro	1,000	1,000	2.500 %	1/19/2017	7/19/2023	99.288	104.845	1,049
Euro	750	750	3.625 %	1/20/2016	1/19/2024	99.632	107.340	805
Euro	1,250	1,250	4.000 %	1/11/2019	4/11/2024	99.436	108.418	1,355
USD	1,500	1,222	5.303 %	5/30/2014	5/30/2024	100.000	109.065	1,333
Euro	1,000	1,000	2.750 %	4/15/2019	4/15/2025	99.320	104.932	1,049
Euro	1,000	1,000	3.000 %	9/30/2016	9/30/2025	99.806	106.935	1,069
Euro	750	750	2.875 %	6/28/2018	1/28/2026	100.000	106.152	796
Euro	1,000	1,000	3.625 %	5/25/2016	5/25/2026	100.000	110.396	1,104
Euro	1,250	1,250	2.375 %	10/12/2017	10/12/2027	99.185	104.428	1,305
Euro	670	670	5.250 %	3/17/2005	3/17/2055	99.667	127.584	855
Total		14,974						15,950

(a) Reserved for employees.

(c) Bond convertible into newly-issued TIM S.p.A. ordinary treasury shares.

The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website at the address: www.telecomitalia.com.

The change in bonds during 2020 was as follows:

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A. 719 million euros 4.000% ⁽¹⁾	Euros	719	21-Jan-20
Telecom Italia S.p.A. 547 million euros 4.875% ⁽²⁾	Euro	547	25-Sep-20

(1) Net of buy-backs totaling 281 million euros made by the company in 2015.

(2) Net of buy-backs totaling 453 million euros made by the company in 2015.

Non-current payables to banks totaled 2,649 million euros (3,832 million euros at December 31, 2019). Current payables to banks totaled 2,013 million euros, up by 1,326 million euros (687 million euros at December 31, 2019) and included 1,204 million euros of the current portion of non-current amounts due to banks.

Non-current **payables to other lenders** totaled 29 million euros (16 million euros at December 31, 2019) while current payables totaled 116 million euros (110 million euros at December 31, 2019) and included 5 million euros representing the current portion of non-current payables to other lenders.

Non-current payables to subsidiaries amounted to 4,204 million euros (4,285 million euros at December 31, 2019) and consisted of loans obtained from Telecom Italia Capital S.A. (3,046 million euros) and from Telecom Italia Finance S.A. (1,158 million euros), following the issues of bonds placed by the financial companies of the Group on the United States and Luxembourg markets.

Current payables to subsidiaries amounted to 247 million euros and decreased by 1,034 million euros compared to December 31, 2019 (1,281 million euros). They include:

- the current portion of non-current loans to Telecom Italia Finance S.A. (35 million euros) and Telecom Italia Capital S.A. (10 million euros);
- current accounts as part of the treasury services regulated at market rates for a total of 202 million euros, particularly with Telecom Italia Sparkle (111 million euros), Telecontact (44 million euros), Olivetti S.p.A. (23 million euros), Telecom Italia Trust Technology (13 million euros).

Non-current financial liabilities for lease contracts come to 3,506 million euros (4,002 million euros at December 31, 2019). Current finance lease liabilities amounted to 463 million euros (666 million euros at December 31, 2019) and referred for 456 million euros to the current portion of non-current finance lease liabilities.

With reference to the financial lease liabilities recognized in 2020 and 2019, the following is noted:

(million euros)	12.31.2020	12.31.2019
Principal reimbursements	575	699
Cash out interest portion	119	143
Total	694	842

Hedging derivatives relating to items classified as non-current financial liabilities amount to 1,813 million euros (1,659 million euros at December 31, 2019). Hedging derivatives relating to hedged items classified as current financial liabilities amounted to 53 million euros (53 million euros at December 31, 2019).

Non-current **non-hedging derivatives** amounted to 1,239 million euros (1,272 million euros at December 31, 2019). Current non-hedging derivatives amounted to 49 million euros (53 million euros at December 31, 2019). These line items include the measurement in the liabilities of transactions which TIM S.p.A. carries out with banking counterparties to service the companies of the Group in its exclusive role as the centralized treasury function (cash pooling), and are offset in full by the corresponding items classified as financial assets. Further details are provided in the Note "Derivatives".

Covenants, negative pledges and other contract clauses in effect at December 31, 2020

Bonds issued by the TIM Group do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) or clauses that result in the automatic early redemption of the bonds in relation to events other than the insolvency of the TIM Group¹; furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by TIM S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Since these bonds have been placed principally with institutional investors in the main world's capital markets (Euromarket and U.S.), the terms which regulate the bonds are in line with the market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company's assets as collateral for loans (negative pledges).

Regarding loans taken out by TIM S.p.A. from the European Investment Bank (EIB), at December 31, 2020 the nominal total of outstanding loans was 850 million euros, none of it backed by a bank guarantee.

The two EIB loans signed on December 14, 2015 and November 25, 2019 contain the following covenants:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes of or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);
- TIM undertook to ensure that, for the entire duration of the loan, the total financial debt of the Group companies other than TIM S.p.A. – except for the cases when that debt is fully and irrevocably secured by TIM S.p.A. – is lower than 35% (thirty-five percent) of the Group's total financial debt;
- "Inclusion clause", under which, in the event TIM commits to uphold financial covenants in other loan contracts (and even more restrictive clauses for the 2015 direct risk loan, including, for instance, cross default clauses and commitments restricting the sale of goods) that are not provided or are stricter than those granted to the EIB, the EIB will have the right – if, in its reasonable opinion, it considers that such changes may have a negative impact on TIM's financial capacity – to request the provision of guarantees or an amendment of the loan contract in order to establish an equivalent provision in favor of the EIB;
- "Network Event", under which, in the event of the disposal of the entire fixed network or of a substantial part of it (in any case, more than half in quantitative terms) to third parties not controlled by the Company, or in the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, TIM must immediately inform the EIB, which may then opt to demand collateral or an amendment of the loan contract or choose an alternative solution.

The loan agreements of TIM S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed.

The loan agreements contain the usual other types of covenants, including the commitment not to pledge the Company's assets as collateral for loans (negative pledge) and the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content can be found in the export credit loan agreement.

In the Loan Agreements and the Bonds, TIM is required to provide notification of change of control. Identification of the occurrence of a change of control and the applicable consequences – including, at the discretion of the investors, the establishment of guarantees or the early repayment of the amount paid in cash or as shares and the cancellation of the commitment in the absence of agreements to the contrary – are specifically covered in the individual agreements.

In addition, the outstanding loans generally contain a generic commitment by TIM, the breach of which is an Event of Default, not to implement mergers, demergers or transfers of company branches outside the Group.

¹ A change of control event can result in the early repayment of the convertible bond of TIM S.p.A., as further detailed below.

Such an Event of Default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the annulment of the undrawn commitment.

Finally, as at December 31, 2020, no covenant, negative pledge or other clause relating to the debt position had in any way been breached or violated.

Revolving Credit Facility

The following table shows committed credit lines available at December 31, 2020.

(billion euros)	12.31.2020		12.31.2019	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – maturing January 2023	5.0	—	5.0	—
Bridge to Bond Facility – maturing May 2021	1.7	—	—	—
Total	6.7	—	5.0	—

At December 31, 2020, TIM had bilateral Term Loans for 1,500 million euros with various banking counterparties and overdraft facilities for 490 million euros, drawn down for the full amount.

On May 18, 2020 TIM created a new credit line, structured as a bridge to bond, for later issuing on the bond market, for 1.7 billion euros and initially maturing after 12 months, with the option of extension for another 12 months.

On January 18, 2021, TIM issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

On January 19, 2021, TIM decided to totally cancel the unused 1.7 billion euro Bridge to Bond line.

TIM's rating at December 31, 2020

At December 31, 2020, the three rating agencies – Standard & Poor's, Moody's and Fitch Ratings – rated TIM as follows:

	Rating	Outlook
STANDARD & POOR'S	BB+	Negative
MOODY'S	Ba2	Negative
FITCH RATINGS	BB+	Stable

NOTE 16

NET FINANCIAL DEBT

The following table shows the net financial debt at December 31, 2020 and December 31, 2019, 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) and adopted by Consob.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also shows the reconciliation of the net financial debt determined according to the criteria indicated by the ESMA and net financial debt calculated according to the criteria of the TIM Group.

(million euros)		12.31.2020	12.31.2019
Non-current financial liabilities		27,946	30,184
Current financial liabilities		3,805	4,453
Total gross financial debt	(a)	31,751	34,637
Non-current financial assets (*)			
Non-current financial receivables arising from lease contracts		(17)	(16)
Non-current hedging derivatives		(500)	(530)
	(b)	(517)	(546)
Current financial assets			
Securities other than investments		—	—
Current financial receivables arising from lease contracts		(44)	(54)
Financial receivables and other financial assets		(110)	(122)
Cash and cash equivalents		(1,766)	(829)
	(c)	(1,920)	(1,005)
Net financial debt as per Consob communication DEM/6064293/2006 (ESMA)	(d=a+b+c)	29,314	33,086
Non-current financial assets (*)			
Other financial receivables and other non-current financial assets	(e)	(1,990)	(1,803)
Net financial debt (*)	(f=d+e)	27,324	31,283
<i>Reversal of fair value measurement of derivatives and related financial liabilities/assets</i>	(g)	(1,541)	(1,543)
Adjusted net financial debt	(f+g)	25,783	29,740

(*) At December 31, 2020 and at December 31, 2019, Non-current financial assets (b + e) amounted to 2,507 million euros and 2,349 million euros, respectively.

(*) As regards the effects of related party transactions on net financial debt, reference should be made to the specific table included in the Note "Related party transactions".

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

Additional cash flow information required by IAS 7

(thousands of euros)	12.31.2019	Cash movements		Non-cash movements			12.31.2020
		Receipts and/or issues	Payments and/or reimbursements	Exchange rate differences	Fair value changes	Other changes and reclassifications	
Non-current financial							
Bonds	14,790		(1,267)	(136)	27	(8)	13,406
Convertible bonds	1,931					33	1,964
Amounts due to banks	4,128	271	(512)			(34)	3,853
Other financial payables	4,804	4	(455)	(81)		11	4,283
(a)	25,653	275	(2,234)	(217)	27	2	23,506
of which current portion	2,402						2,118
Non-current financial liabilities for lease contracts:							
(b)	4,668	747	(575)			(878)	3,962
(b)	4,668	747	(575)	—	—	(878)	3,962
of which current portion	666						456
Other non-current financial liabilities:							
Hedging derivative liabilities relating to hedged items classified as non-current assets/liabilities of a financial nature	1,712			99	56	(1)	1,866
Non-hedging derivatives	1,325			(234)	200	(3)	1,288
Other liabilities	—						—
(c)	3,037	—	—	(135)	256	(4)	3,154
of which current portion	106						102
Non-current financial							
Amounts due to banks	391					418	809
Other financial payables	888			2	(2)	(568)	320
Hedging derivative liabilities relating to hedged items classified as current assets/liabilities of a financial nature	—						—
(d)	1,279	—	—	2	(2)	(150)	1,129
Total Financial liabilities (Gross financial debt)							
(e=a+b+c+d)	34,637	1,022	(2,809)	(350)	281	(1,030)	31,751
Hedging derivative receivables relating to hedged items classified as current and non-current financial assets/liabilities							
(f)	578			(119)	85	2	546
Non-hedging derivative receivables	1,325						—
(g)	1,325						—
Total	(h=e-f-g)	32,734	1,022	(2,809)	—	(2)	29,917

Additional Cash Flow Information

The value of the paid and collected interest expense recognized in the Report on Operations takes into account the movements relating to transactions in CCIRS derivatives to hedge foreign currency underlying instruments in both the asset component (collections) and liability component (payments) without netting the positions.

(million euros)	2020	2019
Interest expense paid	(1,389)	(1,689)
Interest income received	465	654
Net total	(924)	(1,035)

To consider the components of CCIRS derivatives as a single transaction, a representation is given with interest flows in and out shown net. This approach gives the following results:

(million euros)	2020	2019
Interest expense paid	(1,308)	(1,526)
Interest income received	384	491
Net total	(924)	(1,035)

NOTE 17

FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies of TIM S.p.A.

As reported in the Note "Financial Risk Management" of the consolidated financial statements of the TIM Group, TIM S.p.A. adheres to the Guidelines on "Management and control of financial risk" established for the Group. The risk management policies of TIM S.p.A. observe the policies for the diversification of risks identified for the Group.

An optimum fixed-rate and variable-rate debt composition is defined for the entire Group and is not established for the individual companies.

As for the exchange rate risk on financial payables contracted by TIM S.p.A. denominated in currencies other than euro, such risk is hedged in full.

Derivative financial instruments are 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 in euros. 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 leading banking and financial counterparts whose credit ratings are constantly monitored to reduce the credit risk.

TIM S.p.A. has current account transactions with subsidiaries, as part of its treasury services which are conducted at market rates, and multi-year loan agreements with them which are also at market rates.

Interest rate risk: sensitivity analysis

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 TIM S.p.A. derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by TIM S.p.A. 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, 2020, the interest rates in the various markets in which TIM S.p.A. operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the tax effect, would have been recognized in the income statement for 68 million euros (86 million euros at December 31, 2019).

Refer to Note 2 "Accounting Policies" for the potential risk generated by the reform of benchmark interest rates.

Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. In the tables below we took into account the nominal repayment/investment amount (because that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank

deposits, Euro Commercial Papers and receivables on sales of securities), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

(million euros)	12.31.2020			12.31.2019		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	10,423	4,551	14,974	11,827	4,539	16,366
Loans and other financial liabilities (*)	8,854	4,598	13,452	9,714	5,513	15,227
Total	19,277	9,149	28,426	21,541	10,052	31,593

(*) At 12.31.2020, current liabilities totaled 1,127 million euros, of which 521 million euros at variable rates (1,276 million euros at 12.31.2019, of which 784 million euros at variable rates).

Total Financial assets (at the nominal investment amount)

(million euros)	12.31.2020			12.31.2019		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash & cash equivalents	—	1,765	1,765	—	829	829
Securities	—	—	—	—	—	—
Other receivables	598	626	1,224	691	589	1,280
Total	598	2,391	2,989	691	1,418	2,109

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments. The disclosure, which is provided by class of financial asset and liability, has been determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and fair value adjustments: this is therefore the amortized cost, net of accruals and any changes in fair value, as a consequence of hedge accounting.

Total financial liabilities

(million euros)	12.31.2020		12.31.2019	
	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	14,877	3.70	16,220	3.79
Loans and other financial liabilities	13,112	2.91	14,789	2.73
Total	27,989	3.33	31,009	3.28

Total Financial assets

(million euros)	12.31.2020		12.31.2019	
	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Cash & cash equivalents	1,765	—	829.00	0.01
Securities	—	—	—	—
Other receivables	802	0.98	619.00	1.33
Total	2,567	0.31	1,448.00	0.57

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

As for market risk management using derivatives, reference should be made to the Note "Derivatives".

Credit risk

Credit risk represents TIM's exposure to possible losses arising from the failure of commercial or financial counterparties to fulfill their 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 risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterparty could arise, or from more strictly technical, commercial or administrative factors.

TIM'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, excluding guarantees received, described in the Note "Contingent liabilities, other information, commitments and guarantees".

Risk related to trade receivables is managed using customer scoring and analysis systems. For specific categories of trade receivables, the Group also makes use of factoring, mainly on a "non-recourse" basis.

In referring to the details indicated in the Note "Trade and miscellaneous receivables and other current assets", it should be pointed out that the provision for bad debts is raised on specific credit positions that present peculiar risk elements. On credit positions that do not have such characteristics, provision are raised by customer segment according to the average uncollectibility estimated on the basis of statistical indicators.

Financial assets other than trade receivables are written down for impairment on the basis of a general model which recognizes 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 the post-default financial asset.

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, the default probability is obtained.

As regards the current COVID-19 pandemic, use of the Bloomberg Credit Risk Model, which, as mentioned, also takes into account the political and economic situation of the various Countries in the short and medium/long-term (from 3 months to 5 years), ensures that all risk components are adequately reflected in the measurement of the credit risk.

In order to improve credit risk and reduce pressure on working capital, in February 2020, the corporate joint venture TIM-SCB JV S.p.A. was established, with an investment of 51% by Santander Consumer Bank (SCB) and 49% by TIM. The partnership with SCB aims to develop and distribute financial products to finance the purchase by TIM customers of products relative to the world of telecommunications and the transfer without recourse of trade receivables.

On November 3, 2020, the new corporate entity received authorization from the Bank of Italy to grant loans to the public in accordance with Article 106 et seq. of the Consolidated Banking Act (TUB). In the last few months of 2020 and early 2021, various corporate steps were completed, including the change in the company name from TIM-SCB JV S.p.A. to TIMFin S.p.A.

Moreover, again for the credit risk relating to the asset components which contribute to the determination of Net financial debt, it should be noted that, as per Group policy, the management of the liquidity of TIM S.p.A. is guided by conservative criteria and is principally based on money market management. As part of this management, investments are made during the year with temporary excess cash resources, which are expected to turn around within the subsequent 12-month period.

In order to limit the risk of non-fulfillment of the obligations undertaken by the counterparty, deposits were made with banking and financial institutions with a rating no lower than the investment grade and non-negative outlook. Moreover, deposits are made generally for periods of less than three months.

As concerns the credit risk relating to the current asset components and with particular reference to trade receivables, the risk is managed on two levels:

- operational management along the entire process chain, starting from the checks during acquisition and continuing to the internal management checks of still active customers and the subsequent service interruption stages, contractual termination and assignment to specific institutions specialized in credit collection;
- management of specific securitization programs rather than of non-recurring disposals, most of which non-recourse in nature.

Liquidity risk

TIM S.p.A. pursues the Group's objective of achieving an adequate level of financial flexibility.

Current financial assets at December 31, 2020, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 24 months.

As at December 31, 2020, the liquidity margin available for TIM S.p.A. is 8,466 million euros, with an increase of 2,637 million euros with respect to end 2019 (5,829 million euros). The impact of the COVID-19 pandemic has not, therefore, entailed any liquidity risk. Furthermore, on January 18, 2021, TIM S.p.A. issued its first 8-year Sustainability Bond for an amount of 1 billion euros, coupon 1.625%.

12% of gross financial debt at December 31, 2020 (nominal repayment amount) will become due in the next 12 months.

The following tables report the undiscounted contractual cash flows of gross financial debt at nominal repayment amounts and the interest flows, determined by using conditions and interest/exchange rates at December 31, 2020. The portions of principal and interest of the hedged liabilities included both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements

(million euros)		maturing by 12/31 of the year:						Total
		2021	2022	2023	2024	2025	After 2025	
Convertible bonds	Principal	564	3,101	2,417	3,222	2,000	3,670	14,974
	Interest portion	499	462	404	290	180	1,172	3,007
Loans and other financial liabilities	Principal	1,201	1,368	1,244	174	573	3,713	8,273
	Interest portion	245	236	231	242	254	2,638	3,846
Liabilities for lease contracts	Principal	396	437	393	391	374	1,911	3,902
	Interest portion	145	130	116	101	86	278	856
Non-current financial liabilities (*)	Principal	2,161	4,906	4,054	3,787	2,947	9,294	27,149
	Interest portion	889	828	751	633	520	4,088	7,709
Current financial liabilities (**)	Principal	1,127	—	—	—	—	—	1,127
	Interest portion	—	—	—	—	—	—	—
Total Financial Liabilities	Principal	3,288	4,906	4,054	3,787	2,947	9,294	28,276
	Interest portion	889	828	751	633	520	4,088	7,709

(*) These include hedging derivatives, but exclude non-hedging derivatives.

(**) These exclude non-hedging derivatives.

Derivatives on financial liabilities – Contractually expected interest flows

(million euros)	maturing by 12/31 of the year:						Total
	2021	2022	2023	2024	2025	After 2025	
Disbursements	215	215	209	160	136	1,185	2,120
Receipts	(159)	(158)	(149)	(81)	(44)	(142)	(733)
Hedging derivatives – net disbursements (receipts)	56	57	60	79	92	1,043	1,387
Disbursements	253	252	253	254	252	2,568	3,832
Receipts	(253)	(252)	(253)	(254)	(252)	(2,568)	(3,832)
Non-Hedging derivatives – net disbursements (receipts)	—	—	—	—	—	—	—
Total net receipts (disbursements)	56	57	60	79	92	1,043	1,387

In order to name the Parent as the sole counterparty of the banking system, all the derivatives of the Group, except for those relating to two banking counterparties, have been centralized under TIM S.p.A. In the TIM S.p.A. separate financial statements, this centralization has resulted in the presence of two non-hedging derivatives for each centralized transaction (one with the bank and the other for the same amount and opposite sign with the company of the Group), while the hedging relationship remains with the subsidiary and the Group.

The flows relating to the non-hedging derivatives that were placed under centralized management have therefore been excluded both from the analysis by maturity of contractually expected disbursements for financial liabilities and from the analysis by maturity of contractually expected interest flows for derivatives, because the positions are fully netted with one another and, consequently, are not significant for the analysis of liquidity risk.

Market value of derivative instruments

In order to determine the fair value of derivatives, the TIM Group uses various valuation models. The mark-to-market calculation is determined by discounting future interest and notional contractual flows at current market interest and exchange rates.

The notional value 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 differential between the interest rates paid/received. The market value of CCIRSs, instead, 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 imply 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. dividends) of the underlying instrument, and exercise price.

NOTE 18

DERIVATIVES

Derivative financial instruments are used by TIM S.p.A. to hedge its exposure to foreign exchange rate and interest rate risks and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2020 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), and currency forwards to convert the loans/receivables secured in different foreign currencies to the functional currency.

IRS transactions, at specified maturity dates, provide for the exchange of flows of interest with the counterparties, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS, which may predict, in addition to the settlement of periodic interest flows, the exchange of reference principal in the respective denomination currencies, at maturity and possibly spot.

In carrying out its role as the Treasury function of the Group and with the aim of centralizing all exposures with banking counterparties in just one entity (i.e. TIM S.p.A.), TIM has derivative contracts signed with banks and analogous intercompany derivative contracts with Telecom Italia Capital S.A. and Telecom Italia Finance S.A., for a notional amount of 4,116 million euros. The balance of asset and liability measurements of these contracts is equal to zero.

Hedging: economic relationship between underlying instrument and derivatives

The hedge relationships documented in hedge accounting at TIM S.p.A. belong to four categories: i) hedging of the fair value of bond issues denominated in euro and ii) hedging of the cash flows coming from the income flow of bond issues denominated in currencies other than euro, iii) hedging of the cash flows coming from the flow of floating interest on intercompany loans denominated in euro, iv) hedging of the cash flows coming from the flow of floating interest on intercompany loans denominated in foreign currency.

In the first case, the hedged risk is the fair value of the bond attributable to the interest rates and the hedging derivatives are IRSs, which allow all or part of the bond's income flow to be received against a floating interest flow.

The current value of both the underlying and derivative instruments, depends on the structure of the Euro market interest rates at the basis of the calculation of discount factors and floating interest flows of the derivative. In particular, interest rate fluctuations translate as changes in the discount factors of the fixed-interest expense flow on the underlying instrument; on the derivative, changes in the discount factor of interest income will occur, as well as changes in the nominal flow of variable interest (only partially corrected by the discounting effect). The effects induced on the derivative are opposite, in accounting terms, to the effects on the underlying instrument.

In the second case, the hedged risk is represented by the variability in cash flows (and the repayment of the nominal amount) generated by exchange rates; hedging comprises combinations of IRS and CCIRS that synthetically transform fixed rate foreign currency income flows into fixed rate euro flows. In this case, exchange rate fluctuations will usually produce contrary effects on the underlying asset and on the derivative, as the asset leg of the latter faithfully reflects the underlying asset, while the liability leg is denominated in euro and is therefore insensitive to the exchange rate.

In the third case, the hedged risk is the variability of the cash flow against the performance of Euro market interest rates. The hedging is done with IRSs, which allow a variable flow of interest to be collected against the payment of a fixed rate interest flow. The current value of the underlying asset and derivatives depends on the structure of the Euro market interest rates. The fluctuations of rates generate an impact on the nominal amount of the flow of floating rate interest of the loan (only partially corrected by the discounting effect); on the derivative, there are changes in the discount factors of the flow of fixed interest expense and changes in the nominal flow of floating interest income (only partially corrected by the discounting effect). The effects induced on the derivative are of a single and contrary nature with respect to those on the underlying asset.

In the fourth case, the hedged risk is the variability of cash flows (including the nominal amount to be repaid) induced by the exchange rate in addition to the market interest rates in foreign currency; the hedging consists of IRS and CCIRS derivatives which turn the floating rate in foreign currency into a Euro fixed rate. In this case, exchange rate fluctuations (in addition to fluctuations in the interest rates in foreign currency) will produce physiologically opposite effects on the underlying asset and on the derivative, because the asset leg of the latter faithfully reflects the underlying asset, while the liability leg is denominated in euros and is therefore insensitive to the exchange rate (and to the interest rates in foreign currency). The impacts caused, on the other hand, by the Euro interest rates on the liability leg of the derivative are restricted to just discounting.

HEDGING: DETERMINATION OF THE HEDGE RATIO

The types of hedging adopted by the Group require a hedge ratio equal to 1:1, as the types of risk hedged (interest rate and exchange risks) are such as to generate economic effects on the underlying instruments that can only be offset by the same notional quantities of derivative instruments.

HEDGING: POTENTIAL SOURCES OF INEFFECTIVENESS

The contractualization of derivatives to hedge financial risks takes place at arm's length and aims to completely neutralize the effects produced by such instruments.

However, in practice, both fair value hedges and cash flows hedges, although financially perfect, may not guarantee an absolute accounting effectiveness due to the many counterparty banks involved, to the peculiar nature of certain derivatives in terms, for example, of fixing and/or indexing of variable parameters, and to the possible imperfect coincidence between critical terms.

The following table indicates total financial derivatives of TIM S.p.A. at December 31, 2020 and 2019; in compliance with standard IFRS 7, notional amounts are shown with reference to all the derivative instruments involved in the hedges.

The following tables break down financial derivatives by type of risk for each kind of hedging, separating financial assets and liabilities. For CCIRS, the notional amount refers to the contractual value in euros; for IRS in a currency other than the euro, the value is indicated at the market exchange rate.

Type	Hedged risk	Notional amount at 12/31/2020 (million euros)	Notional amount at 12/31/2019 (million euros)	Spot Mark-to-Market (*) (Clean Price) at 12/31/2020 (million euros)	Spot Mark-to-Market (*) (Clean Price) at 12/31/2019 (million euros)
Interest rate swaps	Interest rate risk	4,334	4,334	192	152
Cross Currency and Interest Rate Swaps (CCIRS)	Interest rate risk and currency exchange rate risk	—	—	—	—
Total Fair Value Hedge Derivatives		4,334	4,334	192	152
Interest rate swaps	Interest rate risk	2,177	2,200	(935)	(876)
Cross Currency and Interest Rate Swaps (CCIRS)	Interest rate risk and currency exchange rate risk	2,673	2,673	(614)	(444)
Total Cash Flow Hedge Derivatives		4,850	4,873	(1,549)	(1,320)
Total Non-Hedge Accounting Derivatives		—	—	—	—
Total TIM derivatives		9,184	9,207	(1,357)	(1,168)

(*) Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.

Fair value hedges (million euros)	Accounting item		Notional value	Carrying amount	Change in fair value for the
Interest rate swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets.	a)	4,334	192	41
Assets				192	
Liabilities				—	
Cross Currency and Interest Rate Swaps (CCIRS)	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets.	b)	—	—	—
Assets				—	
Liabilities				—	
Derivative instruments (spot value)		a)+b)	4,334	192	41
Accruals				24	
Derivative instruments (gross value)				216	
Underlying instruments (1)	Bonds - Current/non-current liabilities		4,334	(4,504)	
of which the fair value adjustment	Fair value adjustment and measurements at amortized cost	c)		(186)	(38)
Ineffectiveness		a)+b)+c)			3
Fair value adjustment for hedging settled in advance (2)				(116)	

(1) Includes the amortized cost value of bonds currently hedged plus the fair value adjustment.

(2) Referred to bonds no longer hedged, which are therefore not presented in the table.

Cash flow hedges (million euros)	Accounting item	Notional value	Carrying amount	Change in fair value	Cumulative fair value change
Interest rate swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets. a)	2,177	(935)	(59)	
Assets			48	(11)	
Liabilities			(983)	(48)	
Cross Currency and Interest Rate Swaps (CCIRS)	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current/non-current assets. b)	2,673	(614)	(170)	
Assets			216	(64)	
Liabilities			(830)	(106)	
Derivative instruments (spot value)	a)+b)	4,850	(1,549)	(229)	
Accruals			14		
Derivative instruments (gross value)			(1,535)		
of which equity reserve gains and losses				5	
Determination of ineffectiveness					
Change in derivatives	c)				(1,098)
Underlying instruments ⁽³⁾	d)				1,099
Ineffectiveness ⁽⁴⁾	Positive fair value adjustment of financial derivatives - non-hedging c)+d)				(21)
Equity reserve					
Equity reserve balance			(1,597)		
of which due to the fair value of hedging closed earlier			26		
Reclassification to P&L	Negative reversal of the reserve for the fair value adjustment of hedging derivatives (cash flow)			1	

(3) Hypothetical derivatives used in measuring the effectiveness of cash flow hedges.

(4) The ineffectiveness, due to its nature and calculation, does not necessarily coincide with the difference in cumulative changes in the fair value of derivatives and the underlying instrument; the effect due to the adoption of CVA/DVA is not considered.

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:

Denomination currency	Notional amount in denomination currency (millions)	Start of period	End of period	Rate applied	Interest period	Hedging of notional amount in euro	Hedging of rate in euro
GBP	375	Jan-21	May-23	5.875%	Annually	552	5.535%
YEN	20,000	Jan-21	Oct-29	6-month JPY Libor + 0.94625%	Semiannually	174	5.940%
USD	1,000	Jan-21	Nov-33	3-month USD Libor + 0.756%	Quarterly	849	5.994%
USD	1,500	Jan-21	May-24	5.303%	Semiannually	1,099	4.226%
EURO	794	Jan-21	Sept-34	6-month Euribor + 0.8787%	Semiannually	794	4.332%
EURO	791	Jan-21	July-36	6-month Euribor + 1.45969%	Semiannually	791	5.884%

(*) Financial asset.

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 (meaning the derivative and the item hedged) and the risk of the hedged item taken individually. In essence, the portfolio risk must be significantly lower than the risk of the hedged item.

NOTE 19

SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

Measurement at fair value

For the purposes of the comparative information between the carrying amounts and fair value of financial instruments, required by IFRS 7, the majority of the non-current financial liabilities of TIM consist of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that due to their size and diffusion among investors, are commonly traded on the relevant markets (see the Note "Financial Liabilities (non-current and current)"). For other types of financing, however, the following assumptions have been made in determining fair value:

- for variable-rate loans, the nominal repayment amount has been assumed;
- for fixed-rate loans: fair value has been assumed to be the present value of future cash flows using market interest rates at December 31, 2020.

Lastly, for the majority of financial assets, their carrying amount is a reasonable approximation of their fair value, since these are short-term investments that are readily convertible into cash.

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

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

The following tables contain, for assets and liabilities at December 31, 2020 and December 31, 2019 and in accordance with the categories established by IFRS 9, the supplementary information on financial instruments required by IFRS 7 and the schedules of gains and losses.

Key for IFRS 9 categories

		Acronym
Financial assets measured at:		
Amortized cost	Amortized cost	AC
Fair value through other comprehensive income	Fair value through other comprehensive income	FVTOCI
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Financial liabilities measured at:		
Amortized cost	Amortized cost	AC
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2020

(million euros)	IFRS 9 categories	Notes	Carrying amount at 12/31/2020	Amounts recognized in financial statements			Levels of hierarchy or of fair value			Carrying amount under IFRS 16 IFRS 16	Fair Value at 12/31/2020
				Amortized cost	Fair value through other comprehensive income	Fair value through separate income statement	Level 1	Level 2	Level 3		
ASSETS											
Financial assets measured at amortized cost			AC	4,954	4,954	—	—				4,954
Non-current assets											
Receivables from employees			8)	38	38						
Other financial receivables			8)	713	713						
Miscellaneous receivables from others (non-current)			9)	16	16						
Current assets											
Receivables from employees			8)	12	12						
Other short-term financial receivables			8)	3	3						
Cash and cash equivalents			8)	1,766	1,766						
Trade receivables			12)	2,305	2,305						
Miscellaneous receivables from others (current)			12)	78	78						
Contract assets			12)	23	23						
Financial assets measured at fair value through other comprehensive income			FVTOCI	30	—	30	—				30
Non-current assets											
Other investments			7)	30		30		16		14	
Securities other than investments			8)								
Current assets											
Trade receivables:			12)	—		—					
Securities other than investments			8)	—		—		—			
Financial assets measured at fair value through profit or loss			FVTPL	1,288	—	—	1,288				1,288
Non-current assets											
Non-hedging derivatives			8)	1,239			1,239		1,239		
Current assets											
Securities other than investments			8)								
Non-hedging derivatives			8)	49			49		49		
Hedging Derivatives			HD	546	—	331	215				546
Non-current assets											
Hedging Derivatives			8)	500		308	192		500		
Current assets											
Hedging Derivatives			8)	46		23	23		46		
Financial receivables for lease contracts			n.a.	61	—	—	—				61
Non-current assets			8)	17							17
Current assets			8)	44							44
Total				6,879	4,954	361	1,503	16	1,834	14	61
											6,879

The financial instruments belonging to hierarchy level 3 of fair value are represented by the following Other investments recognized as Non-current assets, for which directly or indirectly observable prices on the market are not available:

- Banca UBAE
- Istituto Europeo di Oncologia
- Other minor companies.

Banca UBAE, Istituto Europeo di Oncologia and the other minor companies were measured on the basis of an analysis, deemed reliable, of their main assets and liabilities.

In 2020, there were no effects on the income statement deriving from the measurement of financial instruments at fair-value hierarchy level 3.

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

(million euros)	IFRS 9 categories	Notes	Carrying amount at 12/31/2020	Amounts recognized in financial statements			Levels of hierarchy or of fair value			Fair Value at 12/31/2020
				Amortized cost	Fair value through other comprehensive income	Fair value through separate income statement	Level 1	Level 2	Carrying amount under IFRS 16 IFRS 16	
LIABILITIES										
Financial liabilities measured at amortized cost	FLAC/HD		28,386	28,386						25,569
Non-current liabilities										
Non-current financial payables		15)	21,388	21,388						
Current liabilities										
Current financial payables		15)	3,240	3,240						
Trade and miscellaneous payables and other current liabilities		23)	3,641	3,641						
Contract liabilities		23)	117	117						
Financial liabilities measured at fair value through profit or loss	FLHFT		1,288			1,288				1,288
Non-current liabilities										
Non-hedging derivatives		15)	1,239			1,239		1,239		
Current liabilities										
Non-hedging derivatives		15)	49			49		49		
Hedging Derivatives	HD		1,866		1,866	—				1,866
Non-current liabilities										
Hedging Derivatives		15)	1,813		1,813			1,813		
Current liabilities										
Hedging Derivatives		15)	53		53			53		
Liabilities for lease contracts	n.a.		3,969						3,969	4,240
Non-current liabilities										
		15)	3,506						3,506	
Current liabilities										
		15)	463						463	
Total			35,509	28,386	1,866	1,288	—	3,154	3,969	32,963

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2019

(million euros)	IFRS 9 Categories	Notes	Carrying amount at 12/31/2019	Amounts recognized in financial statements			Levels of hierarchy or of fair value			Carrying amount under IFRS 16 IFRS 16	Fair Value at 12/31/2019
				Amortized cost	Fair value through other comprehensive income	Fair value through separate income statement	Level 1	Level 2	Level 3		
ASSETS											
Financial assets measured at amortized cost	AC		4,010	4,010	—	—					4,010
Non-current assets											
Receivables from employees		8)	40	40							
Other financial receivables		8)	491	491							
Miscellaneous receivables from others (non-current)		9)	2	2							
Current assets											
Receivables from employees		8)	12	12							
Other short-term financial receivables		8)	9	9							
Cash and cash equivalents		8)	829	829							
Trade receivables		12)	2,484	2,484							
Miscellaneous receivables from others (current)		12)	112	112							
Contract assets		12)	31	31							
Financial assets measured at fair value through other comprehensive income	FVTOCI		33	—	33	—					33
Non-current assets											
Other investments		7)	33		33		—	21	12		
Securities other than investments		8)									
Current assets											
Trade receivables:		12)	—		—						
Securities other than investments		8)	—		—		—				
Financial assets measured at fair value through profit or loss	FVTPL		1,325	—	—	1,325					1,325
Non-current assets											
Non-hedging derivatives		8)	1,272			1,272		1,272			
Current assets											
Securities other than investments		8)									
Non-hedging derivatives		8)	53			53		53			
Hedging Derivatives	HD		578	—	404	174					578
Non-current assets											
Hedging derivatives		8)	530		378	152		530			
Current assets											
Hedging derivatives		8)	48		26	22		48			
Financial receivables for lease contracts	n.a.		70	—	—	—				70	70
Non-current assets		8)	16							16	
Current assets		8)	54							54	
Total			6,016	4,010	437	1,499	—	1,924	12	70	6,016

(million euros)	IFRS 9 categories	Notes	Carrying amount at 12/31/2019	Amounts recognized in financial statements			Levels of hierarchy or of fair value		Carrying amount under IFRS 16 IFRS 16	Fair Value at 12/31/2019
				Amortized cost	Fair value through other comprehensive income	Fair value through separate income statement	Level 1	Level 2		
LIABILITIES										
Financial liabilities measured at amortized cost	FLAC/HD		30,493	30,493						28,041
Non-current liabilities										
Non-current financial payables		15)	23,251	23,251						
Current liabilities										
Current financial		15)	3,681	3,681						
Trade and miscellaneous payables and other current liabilities		23)	3,413	3,413						
Contract liabilities		23)	148	148						
Financial liabilities measured at fair value through profit or	FLHfT		1,325			1,325				1,325
Non-current liabilities										
Non-hedging derivatives		15)	1,272			1,272		1,272		
Current liabilities										
Non-hedging derivatives		15)	53			53		53		
Hedging Derivatives	HD		1,712		1,712	—				1,712
Non-current liabilities										
Hedging derivatives		15)	1,659		1,659			1,659		
Current liabilities										
Hedging derivatives		15)	53		53			53		
Liabilities for lease contracts	n.a.		4,668						4,668	5,152
Non-current liabilities		15)	4,002						4,002	
Current liabilities		15)	666						666	
Total			38,198	30,493	1,712	1,325	—	3,037	4,668	36,230

Gains and losses by IFRS 9 categories - Year 2020

(million euros)	IFRS 9 categories	Net gains/(losses) 2020	of which interest
Assets measured at amortized cost	AC	(354)	12
Assets and liabilities measured at fair value through profit or loss	FVTPL	88	—
Assets and liabilities measured at fair value recognized in the statements of comprehensive income	FVTOCI	—	—
Financial Liabilities at Amortized Cost	AC	(766)	729
Total		(1,032)	741

Gains and losses by IFRS 9 categories - Year 2019

(million euros)	IFRS 9 categories	Net gains/(losses) 2019 ⁽¹⁾	of which interest
Assets measured at amortized cost	AC	(423)	10
Assets and liabilities measured at fair value through profit or loss	FVTPL	(40)	—
Assets and liabilities measured at fair value recognized in the statements of comprehensive income	FVTOCI	6	—
Financial Liabilities at Amortized Cost	AC	(958)	(893)
Total		(1,415)	(883)

(1) of which 2 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

NOTE 20

PROVISIONS FOR EMPLOYEE BENEFITS

The item decreased by 631 million euros compared to December 31, 2019. The breakdown and movements are as follows.

(million euros)	12.31.2018	Increase/ Present value	Decrease	12.31.2019
Provision for employee severance indemnities	847	42	(84)	805
Provision for termination benefit incentives and corporate restructuring	706	236	(401)	541
Total	—			
of which:	1,553	278	(485)	1,346
non-current portion	1,502			1,106
current portion (*)	51			240

(*) The current portion refers to the Provision for termination benefit incentives and corporate restructuring.

(million euros)	12.31.2019	Increase/ Present value	Decrease	12.31.2020
Provision for employee severance indemnities	805	(1)	(128)	676
Provision for termination benefit incentives and corporate restructuring	541	30	(532)	39
Total	1,346	29	(660)	715
of which:				
non-current portion	1,106			676
current portion (*)	240			39

(*) The current portion refers to the Provision for termination benefit incentives and corporate restructuring.

The **Provision for employee severance indemnities** is down 129 million on December 31, 2019.

"Increases/ Present value" totaled -1 million euros and break down as follows

(million euros)	2020	2019
(Positive)/negative effect of curtailment	(1)	(8)
Finance expenses	6	10
Net actuarial (gains) losses recognized during the year	(6)	40
Total expenses (income)	(1)	42
Effective return on plan assets	there are no assets servicing the plan	

The positive impact of the curtailment, amounting to 1 million euros, was linked to advances made in respect of the previous actuarial processing.

The net actuarial gains recognized at December 31, 2020 amounted to 6 million euros (net actuarial losses of 40 million euros in 2019), are essentially connected with the inflation rate forecast, which went from 1.2% at December 31, 2019 to 0.8% at December 31, 2020; the discount rate also changed, going from the 0.77% used at December 31, 2019 to 0.34% at December 31, 2020.

According to Italian law, the amount to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon

termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-set interest. The liability is not associated with any vesting condition or period or any funding obligation; accordingly, there are no assets servicing the provision. The liability is recognized net of the partial prepayments of the provision and payments of the amounts obtained by employees for the reasons permitted by the applicable regulations.

In accordance with IAS 19, this provision has been recognized as a "Defined benefit plan", for the amounts due up to December 31, 2020.

Under the regulations introduced by Italian Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), the severance indemnities accruing from 2008 are assigned to either the INPS Treasury Fund or to supplementary pension funds and take the form of a "Defined contribution plan". However, revaluations of the provision for the employee severance indemnities at December 31, 2006, made on the basis of the official cost-of-living index and legally-prescribed interest, are retained in the provision for employee severance indemnities. In application of IAS 19, the employee severance indemnities have been calculated using the "Projected Unit Credit Method" according to which:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.);
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and of the probability that each benefit actually has to be paid;
- the liability has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals.

The following assumptions have been made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
Inflation rate	0.80% per annum	0.80% per annum
Discount rate	0.34% per annum	0.34% per annum
Employee severance indemnities annual increase rate	2.10% per annum	2.10% per annum
Annual real wage growth:		
equal to or less than 40 years of age	1.0% per annum	1.0% per annum
over 40 but equal to or less than 55 years of age	0.5% per annum	0.5% per annum
over 55 years of age	0.0% per annum	0.0% per annum

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
Probability of death	RG mortality tables 48 published by Ragioneria Generale dello Stato	RG mortality tables 48 published by Ragioneria Generale dello Stato
Probability of disability	INPS tables divided by age and sex	INPS tables divided by age and sex
Probability of resignation:		
up to 40 years of age	2.00%	1.00%
From 41 to 50 years of age	2.00%	0.50%
From 51 to 59 years of age	1.00%	0.50%
From 60 to 64 years of age	None	0.50%
Over 65 years of age	None	None
Probability of retirement	100% on achievement of the AGO requirements aligned with D.L. 4/2019	
Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70%	1.5% per annum	1.5% per annum

The application of the above assumptions resulted in a liability for employee severance indemnities of 676 million euros at December 31, 2020 (805 million euros at December 31, 2019).

Reported below is a sensitivity analysis for each significant actuarial assumption adopted to calculate the liability as at year end, showing how the liability would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at that date, stated in amounts.

The weighted average duration of the obligation is 10.2 years.

CHANGES IN ASSUMPTIONS	Amounts (million euros)
Turnover rate:	
+ 0.25 p.p.	(2)
0.25 p.p.	2
Annual inflation rate:	
+ 0.25 p.p.	12
0.25 p.p.	(12)
Annual discount rate:	
+ 0.25 p.p.	16
0.25 p.p.	(16)

The **Provision for termination benefit incentives and corporate restructuring** decreased in total by 502 million euros, mainly as a result of redundancies and the reclassification to payables of amounts not yet paid, relating to plans already set aside in previous years (532 million euros). The increases, amounting to 30 million euros, were connected to the review of the estimate and effective date of the of the Company envisaged for 2020 (including through application of Article 4 of Italian Law 92 of June 28, 2012, as defined by the latest Trade Union Agreement of February 26, 2019).

NOTE 21

PROVISIONS FOR RISKS AND CHARGES

These decreased by 104 million euros compared to December 31, 2019. The breakdown and movements are as follows:

(million euros)	12.31.2019	Increase	Taken to income	Used directly	Reclassifications / other changes	12.31.2020
Provision for taxation and tax risks	7		(1)	(1)	(3)	2
Provision for restoration costs	250	18		(6)	6	268
Provision for legal disputes	756	29		(123)	4	666
Provision for commercial risks	24			(5)	6	25
Provision for risks and charges on investments and corporate-related transactions	34				(6)	28
Other provisions	23	1		(23)		1
Total	1,094	48	(1)	(158)	7	990
of which:						
non-current portion	528					618
current portion	566					372

The non-current portion of provisions for risks and charges mainly relates to the provision for restoration costs and some of the provision for legal disputes. More specifically, in accordance with accounting standards, the total amount of the provision for restoration costs is calculated by re-measuring the amounts for which a probable outlay is envisaged, based on the estimated inflation rates for the individual due dates, and subsequently discounted to the reporting date based on the average cost of debt, taking into account cash outflow forecasts.

The **provision for taxation and tax risks** decreased by 5 million euros compared to December 31, 2019.

The **provision for restoration costs** related to the provision for restoration of leased real estate and sites used for mobile telephony and the dismantling of tangible assets (batteries, wooden poles). This provision increased by 18 million euros compared to December 31, 2019.

The **provision for legal disputes** decreased by 90 million euros compared to December 31, 2019; the figure includes provisions for disputes with employees (56 million euros) and third parties (610 million euros).

The **Provision for commercial risks** increased by 1 million euros compared to December 31, 2019.

The **Provision for risks and charges on investments and corporate-related transactions** decreased by 6 million euros compared to December 31, 2019.

Other provisions for risks and charges decreased by 22 million euros compared to December 31, 2019.

NOTE 22

MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities consisted of the following at December 31, 2020:

(million euros)	12.31.2020	12.31.2019
Miscellaneous payables (non-current)		
Payables to social security agencies	480	363
Payables due to subsidiaries	4	11
Other payables to third parties	2,202	1,814
(a)	2,686	2,188
Other non-current liabilities		
Deferred revenues from customer contracts (Contract liabilities)	104	92
Other deferred revenue and income	392	374
Capital grants	295	319
(b)	791	785
Total	(a+b) 3,477	2,973

Miscellaneous non-current payables

This item rose by 498 million euros compared to December 31, 2019 and mainly includes:

- **Payables to social security agencies** amounted to 480 million euros (363 million euros at December 31, 2019): related to the remaining amount due to the INPS for the application of the 2015 arrangements and those subsequently signed in 2018 and 2019, relating to Article 4 paragraphs 1-7ter, of Italian Law 92 of June 28, 2012 (see the Note "Employee benefits expenses" for more details).

Details are as follows:

(million euros)	12.31.2020	12.31.2019
Non-current payables		
Due from 2 to 5 years after the end of the reporting period	473	354
Due beyond 5 years after the end of the reporting period	7	9
	480	363
Current payables	290	209
Total	770	572

- **Payables to subsidiaries** amounted to 4 million euros (11 million euros at December 31, 2019): this item relates to the payables due for the adoption of the consolidated tax return in Italy;
- **Other payables to third parties** totaling 2,202 million euros (1,814 million euros at December 31, 2019). The item refers to the non-current portion, equal to 1,738 million euros (55 million euros recognized as current payables) for the purchase - which took place in 2018 - of the rights-of-use for the frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, to be allocated on 5G mobile communication services. It also includes 461 million euros relative to two installments of substitute tax to be paid in accordance with Decree Law 104/2020, Art. 110, paragraphs 8 and 8bis.

Other non-current liabilities

The item amounted to 791 million euros and rose by 6 million euros compared to December 31, 2019; it included:

- **Deferred revenues from contracts with customers (contract liabilities)** of 104 million euros (92 million euros at December 31, 2019): the item is reversed to the income statement according to the duration of the contractual obligations between the parties, averaging 24 months; therefore, the balance as at December 31, 2020 will be reversed to the income statement generally by 2022. The item mainly includes:
 - deferred revenues on activation and installation of new contracts with customers of 8 million euros (8 million euros at December 31, 2019): in this regard, it is noted that under IFRS 15 activation/installment revenues are allocated to other contract obligations and recognized throughout the period of performance of the contract, as they do not relate to separate performance obligations.
 - deferred revenues for subscription charges of access to the network of 28 million euros;
 - deferred revenues for subscription charges and rent and maintenance fees of 64 million euros.
- **Other deferred revenues and income**, amounting to 392 million euros (374 million euros at December 31, 2019): these refer to contract liabilities deriving from contracts for the sale of transmission capacity (operating asset leases);
- **Capital grants**, amounting to 295 million euros (319 million euros at December 31, 2019): the item represents the component still to be recognized to the income statement based on the remaining useful life (estimated at around 18 years) of the assets that the grants refer to and is mainly connected to the development of the infrastructures on the Ultra-Broadband-UBB and Broadband-BB projects.

NOTE 23

TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities at December 31, 2020 consisted of the following:

(million euros)	12.31.2020	of which Financial Instruments	12.31.2019	of which Financial Instruments
Trade payables				
Payables due to suppliers	2,687	2,687	2,678	2,678
Payables to other telecommunication operators	374	374	302	302
Payables to subsidiaries	280	280	250	250
Payables to associates and joint	102	102	3	3
Payables to other related parties	35	35	30	30
(a)	3,478	3,478	3,263	3,263
Miscellaneous payables				
Payables to subsidiaries	42		—	
Payables to associates and joint	—		49	
Payables to other related parties	61	—	21	—
Tax payables	109		97	
Payables to social security agencies	341		285	
Payables for employee compensation	118		142	
Other	260	163	304	150
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year	39		240	
Provisions for risks and charges for the current portion expected to be settled within 1 year	372		566	
(b)	1,342	163	1,703	150
Other current liabilities				
Liabilities from customer contracts (Contract liabilities)	711	117	789	148
Other deferred revenue and income	58		68	
Other	21		20	
(c)	790	117	877	148
Total (a+b+c)	5,610	3,758	5,843	3,561

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

Trade payables

This item increased by 215 million euros compared to December 31, 2019, mainly as a result of the change in bills payable. In particular, we report:

- trade payables to subsidiaries that amounted to 280 million euros: these relate to amounts due to Telecom Italia Sparkle (82 million euros) for telecommunications services, Telenergia (68 million euros), Flash Fiber (42 million euros), Olivetti (37 million euros), TIM Retail (20 million euros), Telecontact (13 million euros), Telecom Italia Trust Technologies (9 million euros) and Telsy (7 million euros) for supply contracts;

- trade payables to associates that amounted to 102 million euros: relate to debt positions mainly due from INWIT S.p.A. (99 million euros), which has become an associate.
- trade payables to related parties that amounted to 35 million euros: relate mainly to amounts due to the Havas group.

Miscellaneous payables

Amounted to 1,342 million euros and increased by 361 million euros compared to December 31, 2019. They mainly include:

- tax payables, amounting to 109 million euros: these mainly refer to VAT payable (24 million euros), withholding tax payable to the tax authorities as withholding agent (72 million euros) and government concession tax payable (7 million euros).
- payables to social security agencies: include the short-term portion of the amount due to INPS for the application of the 2015 and subsequent agreements signed in 2018, in 2019 and in 2020, relating to article 4, paragraphs 1-7ter, of Italian Law 92 of June 28, 2012, as described in the Note "Miscellaneous payables and other non-current liabilities";
- payables to subsidiaries include 10 million euros for tax consolidation (mainly due to Olivetti, Telecom Italia Sparkle and Flash Fiber);
- the other payables include payables for government and European Union grants;
- provisions for employee benefits and provisions for risks and charges.

Other current liabilities

The item, amounting to 790 million euros, fell by 87 million euros compared to December 31, 2019 and consisted of:

- **The liability arising from contracts with customers (contract liabilities)**, amounting to 711 million euros (789 million euros at December 31, 2019): The item shows the liabilities from customers linked to the Company's obligations to transfer goods and services for which received a price. Liabilities with customers, generally with a maturity of up to 12 months, are shown below; therefore, the figure at December 31, 2020 will be substantially reversed by December 31, 2021. In particular:
 - **Contract Liabilities** amounting to 17 million euros (53 million euros at December 31, 2019): the item includes bundle contracts (good and services packages) with performance obligations with different timing for the recognition of revenues and consequent deferral of the fees originally recognized. The decrease recognized in 2020 (-36 million euros) was mainly linked to the launch of commercial offers that no longer require a fixed duration and the reversal to the income statement of the balance previously accumulated;
 - **Customer-related items** of 351 million euros (356 million euros at December 31, 2019): the item includes trade payables following contractual relationships, such as the payable for prepaid traffic and the subscription charges charged in advance;
 - **Advance receipts and payments** amounting to 80 million euros (100 million euros at December 31, 2019): the item includes trade payables following prepayments, such as deposits made by subscribers for phone calls;
 - **Deferred revenues from contracts with customers** of 263 million euros (280 million euros at December 31, 2019): the item refers to the deferral of revenues from customers contracts and mainly includes:
 - deferred revenues on activation and installation of new contracts with customers (10 million euros);
 - deferred revenues for interconnection charges (119 million euros);
 - deferred revenues for rent and maintenance (109 million euros).
- Other deferred revenues and proceeds amounted to 58 million euros (68 million euros at December 31, 2019): related for 48 million euros to deferred revenues from transmission capacity transfer contracts and for 10 million euros to deferred revenues from real estate lease contracts (income from operating leases).

NOTE 24

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 TIM S.p.A. was involved at December 31, 2020, as well as those that came to an end during the year.

TIM S.p.A. has posted liabilities totaling 511 million euros for those disputes described below where the risk of losing the case has been considered probable.

It should be noted that for some disputes described below, on the basis of the information available at the closing date of the present document and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of possible payments, if any. Moreover, in those cases in which disclosure of information on a dispute could seriously jeopardize the position of TIM or its subsidiaries, only the general nature of the dispute is described.

Lastly, as regards proceedings with the Antitrust Authority, please note that based on Article 15, paragraph 1 of Law 287/1990 ("Antitrust regulations"), the Authority has the right to impose an administrative sanction calculated on the turnover of the Group in cases of breaches considered serious.

a) Significant disputes and pending legal actions

Administrative offence charge pursuant to Legislative Decree 231/2001 for the TIM Security Affair

In December 2008 TIM received notification of the application for its committal for trial for the administrative offence specified in articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001 in relation to the affairs that involved several former employees of the Security function and former collaborators of the Company charged – among other things – with offences involving corruption of public officials, with the object of acquiring information from confidential files. In May 2010 TIM definitively ceased to be a defendant in the criminal trial, the Judge for the Preliminary Hearing having approved the motion for settlement of the proceedings (plea bargaining) presented by the Company. In the hearing before Section One of the Milan Court of Assizes, TIM acted in the dual role of civil party and civilly liable party. In fact, on the one hand it was admitted as civil party against all the defendants for all charges, and on the other it was also cited as the party with civil liability pursuant to article 2049 of the Italian Civil Code for the actions of the defendants in relation to 32 civil parties. Telecom Italia Latam and Telecom Italia Audit and Compliance Services (now incorporated into TIM) also participated in the hearing as civil parties, having filed appearances since the Preliminary Hearing and brought charges against the defendants for hacking. After the lengthy evidence hearings, 22 civil parties filed claims for compensation, also against TIM as civilly liable party, for over 60 million euros (over 42 million euros of which requested by a single civil party). The Company itself, as civil party, also summarized its conclusions against the defendants, requesting that they be found liable for all the damages suffered as a result of the facts of the case. In February 2013, Section 1 of the Milan Court of Assizes issued the first instance judgement, sentencing the defendants to terms of imprisonment of between 7 years and 6 months and one year. The Court also recognized that there had been non-pecuniary damage to some of the civil parties as a consequence of the alleged facts, and sentenced the defendants, jointly and severally with civilly liable party TIM, to compensate said damages, totaling 270,000 euros (in part jointly and severally with Pirelli) plus legal fees; at the same time the Court also sentenced the defendants to pay compensation for pecuniary and non-pecuniary damages incurred by the Company, granting it a provisional sum of 10 million euros. The judgement also recognized the existence of non-pecuniary damage to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, sentencing the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company. In November 2013 the grounds for the judgment in the first instance were published (which, for its part, the Company decided not to contest). At the end of the appeal, which was brought by the convicted defendants, the judgement in the first instance was partly reversed. The appeal judge acknowledged that the time-limit had expired on the majority of the charges and made an order not to proceed against the defendants who had been convicted in the lower court, with the exception of two former private investigators, who were found guilty of the offense of revealing information which was subject to a prohibition on disclosure. As for the civil judgements,

the Court revoked those made by the judge of first instance and ruled in favor of three ministries, AGCM and the Revenues Agency. The Court also decided to revoke the provisional sum of 10 million euros awarded to the Company as civil party at the end of the proceedings in the court of first instance, making a generic ruling that the defendants should pay compensatory civil damages. Finally, the appeal judge also rejected all the demands for compensation advanced in the appeals by certain civil parties for a total of about 60 million euros, in respect of which the Company has the role of party liable for damages. At the end of the appeal, therefore, the civil rulings settled in the first instance were confirmed which TIM, as the party liable for damages, had already paid to the damaged requesting parties. The three defendants brought an appeal to the Court of Cassation against the judgement of the second instance issued by the Milan Appeal Court of Assizes. In April 2018 the Supreme Court confirmed the convictions of the defendants and canceled the civil rulings, referring the issue generically to the civil court, for a more careful assessment of the claims made, above all concerning the quantum of evidence. It also canceled and referred the confiscation in favor of the State, which will have to be reassessed by a different section of the Milan Crown Court of Appeal under the scope of proceedings not involving the Company.

Golden Power Case

In August 2017 the Prime Minister's office brought proceedings against TIM (as well as Vivendi) in order to verify the fact that TIM has an obligation to notify, pursuant to the Golden Power law, Vivendi's acquisition of corporate control of TIM and the strategic assets it holds. In September 2017, the proceedings in question concluded by affirming that this obligation did exist for TIM with effect from May 4, 2017 (the date of the Shareholders' Meeting that renewed TIM's corporate bodies).

As a result of this decision by the Presidency of the Council of Ministers, new and separate administrative proceedings started for the imposition on TIM of a financial penalty laid down by the Golden Power law for non-compliance with the aforementioned obligation to notify. These proceedings ended on May 8, 2018 with the imposition of a financial penalty of 74.3 million euros.

The Company, is convinced that it has the legal arguments to demonstrate that it was under no obligation to notify the control exercised over it by Vivendi, filed separate extraordinary appeals to the President of the Republic to request the abrogation of the order of September 2017 and before the Lazio Regional Administrative Court (TAR) against the aforementioned order of May 8, 2018, which imposed a financial penalty, requesting its precautionary suspension. In relation to the appeal to the Lazio TAR against the aforementioned provision of May 8, 2018, which imposed the financial penalty, the Court, after granting, in July 2018, the application of the Company and thereby suspending payment of the fine, subsequently rejected, with the provisional ruling of May 2019, the exception of inadmissibility of the appeal on the sanction of 74.3 million euros; suspended the ruling preliminarily with respect to the extraordinary appeal concerning the obligation of notification pursuant to the Golden Power rules, and further suspended the execution of the challenged measure.

It should also be noted that in May 2018 a guarantee bond for 74.3 million euros was issued in favor of the Presidency of the Council, requested for the submission by TIM before the Lazio TAR of the request for a precautionary suspension of the collection of the fine imposed for alleged breach of Article 2 of Decree Law no. 21 of March 15, 2012 (the "Golden Power" law).

Furthermore, TIM appealed before the Lazio TAR and then appealed before the Council of State against the provision with which Consob, on September 13, 2017, affirmed Vivendi's control over TIM.

In December 2020, the Council of State issued a final judgment upholding TIM's appeal and canceling the provision by Consob, a significant premise to the entire subsequent proceedings of the Presidency of the Council in relation to the obligation to Golden Power notification as described above.

On the other hand, the President of the Council of Ministers exercised the special powers prescribed in the Golden Power law through two specific measures in October and November 2017, with which it imposed specific prescriptions and conditions on TIM S.p.A. and on the companies of the Telecom Italia Sparkle group and Telsy Elettronica e Telecomunicazioni (now Telsy S.p.A.).

The prescriptions, according to the Administrative Authority, are essentially connected to the circumstance that these companies, in part, perform activities that are relevant for national security and as far as TIM is concerned to the circumstance that it also owns the infrastructure and the systems used to provide access to end-users of services covered by the universal service obligation.

Any failure on the part of the recipients of the measures to execute said conditions and prescriptions is penalized in the same way as failure to notify significant deeds for the purpose of the application of the so-called Golden Power.

The companies subject to the prescriptions are required to send periodic reports to a special Monitoring Committee established at the office of the Prime Minister in order to verify compliance with the aforementioned prescriptions.

In December 2017 the Group sent to the Presidency of the Council of Ministers the first compliance report outlining all the proposals and activities put in place to carry out the prescriptions. This report is then followed by interim reports, as required by the applicable legislation.

Nevertheless, also for this case TIM has already filed two extraordinary appeals to the President of the Republic to request the cancellation (i) of the imposition of the measures pursuant to Art. 1 of Law Decree no. 21/2012 and (ii) the imposition of measures pursuant to Art. 1 of Law Decree no. 21/2012.

As stated, the assumption for exercising special powers was (erroneously, according to the Company) referred to the *de facto* control resulting from the outcome of the Shareholders' Meeting of May 4, 2017 and to the direction and coordination of TIM by Vivendi. Both these circumstances no longer apply, since: at the Shareholders' Meeting of May 4, 2018, the slate presented by the shareholders Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership received the majority vote; the Board of Directors was re-appointed with 13 independent directors out of a total of 15, with only 5 from the slate presented by Vivendi; thus, Vivendi no longer has direction and coordination, nor is there *de facto* control.

In consequence, the Company has asked the Presidency of the Council of Ministers to repeal the two Decrees, while, in the alternative, expressing its willingness to collaborate in the redrafting of the prescriptions applied to TIM, to take account of the changed situation.

The Presidency of the Council of Ministers, in a decree issued on July 6, 2018, deemed that it could not further exercise its special powers, reaffirming the validity of the two Decrees it had previously issued, and rejected the application for their repeal.

The justification for this refusal is the purported circumstance that the new governance arrangements of the Company are alleged to be currently characterized by extreme variability; this, it is argued, means that the measures through which the special powers have been exercised cannot be surmounted, given the need to protect the public interest in the security and operation of the networks.

Consequently, the Company lodged an appeal with additional reasons as part of the appeals already lodged against the Prime Minister's decrees of October 16 and November 2, 2017 and against the Prime Minister's resolution of July 6, 2018, rejecting the appeal for revocation presented by the Company on the outcome of the changed situation in corporate governance. With a non-final ruling published in May 2019, the Lazio TAR: (i) accepted TIM's request for provisional measures to suspend the fine conditional on the offer of the guarantee; (ii) granted the suspension of the procedure in order to wait for the final judgment in the (injurious) case pending before the President of the Republic regarding the notification obligation, pursuant to the Golden Power provisions; (iii) rejected the request to close the case.

Italian Competition Authority Case A428

At the conclusion of case A428, in May 2013, Italian Competition Authority AGCM imposed two administrative sanctions of 88,182,000 euros and 15,612,000 euros on TIM for abuse of its dominant position. The Company allegedly (i) hindered or delayed activation of access services requested by OLOs through unjustified and spurious refusals; (ii) offered its access services to final customers at economic and technical conditions that allegedly could not be matched by competitors purchasing wholesale access services from TIM itself, only in those geographic areas of the Country where disaggregated access services to the local network are available, and hence where other operators can compete more effectively with the Company.

TIM appealed against the decision before the Regional Administrative Court (TAR) for Lazio, applying for payment of the fine to be suspended. In particular, it alleged: infringement of its rights to defend itself in the proceedings, the circumstance that the organizational choices challenged by AGCM and allegedly at the base of the abuse of the OLO provisioning processes had been the subject of specific rulings made by the industry regulator (AGCom), the circumstance that the comparative examination of the internal/external provisioning processes had in fact shown better results for the OLOs than for the TIM retail department (hence the lack of any form of inequality of treatment and/or opportunistic behavior by TIM), and (regarding the second abuse) the fact that the conduct was structurally unsuitable to reduce the margins of the OLOs.

In May 2014, the judgement of the Lazio TAR was published, rejecting TIM's appeal and confirming the fines imposed in the original order challenged. In September 2014 the Company appealed against this decision.

In May 2015, with the judgement no. 2497/15, the Council of State found the decision of the court of first instance did not present the deficiencies alleged by TIM and confirmed the AGCM ruling. The company had already proceeded to pay the fines and the accrued interest.

In a decision notified in July 2015, AGCM started proceedings for non-compliance against TIM, to ascertain if the Company had respected the notice to comply requiring it to refrain from undertaking behaviors analogous to those that were the object of the breach ascertained with the concluding decision in case A428 dated May 2013.

On January 13, 2017, TIM was served notice of AGCM's final assessment, which recognized that TIM had complied in full with the A428 decision and, as such, the conditions for the imposition of a fine for non-compliance were not present.

AGCM recognizes, furthermore, that TIM's behavior subsequently to the 2013 proceedings has been directed towards continuous improvement of its performance in the supply of wholesale access services concerning not only the services which were the subject of the investigation, but also the new super-fast broadband access services. In assessing compliance, AGCM recognized the positive impact of the implementation, albeit not yet

completed, of TIM's New Equivalence Model (NME). The AGCM decision orders TIM to: (i) proceed with the implementation of the NME until its completion which is expected to be by April 30, 2017; (ii) to inform the Authority about the performance levels of the systems for providing wholesale access services and about the completion of the corresponding internal reorganization plan by the end of May 2017. The Company quickly complied with both orders, and AGCOM communicated its satisfaction on August 9, 2017.

Vodafone lodged an appeal with the Lazio Regional Administrative Court against the final decision in the proceedings for non-compliance taken by AGCM. TIM filed an appearance, as in the other lawsuits filed in March 2017 by the operators CloudItalia, KPNQWest Italia and Digitel.

Vodafone (A428)

In August 2013, Vodafone, as incorporating company of operator Teletu, submitted to the Milan Court a huge claim for damages for presumed abusive and anticompetitive behavior (founded principally on ICA case A428) which TIM allegedly implemented in the period 2008 - 2013. The pecuniary claim was quantified by Vodafone as an estimated sum of between 876 million euros and 1,029 million euros.

In particular, Vodafone alleged technical boycotting activities, with refusal to activate lines requested for Teletu customers (in the period from 2008 to the month of June 2013), together with the adoption of allegedly abusive price policies for wholesale network access services (period from 2008 to the month of June 2013). Furthermore, the other party complained of the presumed application of discounts to business customers greater than those envisaged ("margin squeezing") and the carrying out of presumed illegal and anticompetitive winback practices (in the period from the second half of 2012 to the month of June 2013).

TIM filed an appearance, challenging the claims made by the other party regarding the merits and the amount and making a counterclaim. Following the August 2016 decision by the Court of Cassation which confirmed that the Milan Court had jurisdiction to decide the dispute, the merits of the case will be decided at the hearing in December 2016.

With writ of summons before the Milan Court served in May 28, 2015, Vodafone filed additional damages claims, all based on the same AGCM A428 decision and referring to alleged damages suffered between July 2013 and December 2014 (and hence over a period subsequent to that of the damages claim reported above), for a total amount of around 568.5 million euros.

The case also contains a reservation of further damages to be quantified, during the proceedings, for the following periods, the claimant alleging that the presumed abusive conduct of TIM continued. TIM filed an appearance, challenging the claims made by the other party regarding the merits and the amount and making a counterclaim.

By order of October 6, 2016, the judge received Vodafone's application for the two A428 lawsuits brought by it to be joined. At the end of the reinstatement proceedings of 21 December, the terms were established for the preliminary briefs and a hearing was fixed for July 11, 2017 for the admission of evidence. When the first preliminary brief was filed, following the favorable outcome for TIM of proceedings A428-C (which confirmed the absence of improper conduct by the Company under A428 after 2011), Vodafone decided nonetheless to file further claims for 2015-2016, thus restating its total claim to be 1,812 million euros, which was also disputed and rebutted by TIM.

Colt Technology Services

With writ of summons before the Milan Court served in August 2015, the operator Colt Technology Services filed a damages claim based on the A428 decision, requesting compensation for alleged damages suffered from 2009 to 2011 as a result of purportedly inefficient and discriminatory conduct by TIM in the wholesale service supply process. The damage claimed was quantified as 27 million euros in loss of profits for the alleged non-acquisition of new customers, or for the alleged impossibility of supplying new services to the customers it had already acquired; the other party also formulated a request for compensation for the damages to its image and commercial reputation. This case follows the extrajudicial claim for approximately 23 million euros, previously advanced by Colt in June 2015, which the Company rejected in its entirety. TIM filed an appearance, contesting all of the plaintiff's allegations.

COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.)

With writ of summons before the Rome Court, COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.) filed a damages claim for a total of 37 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009-2011, in the form of technical boycotting (refusals to activate wholesale services - KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations. In the judgment with ruling in April 2019, the Court of Rome partially received the petitions of COMM 3000 S.p.A. (formerly KPNQWest Italia S.p.A.), sentencing TIM to pay an amount significantly lower than the amount in the counterparty's damages claim. In June 2019, TIM filed an appeal against the ruling, requesting full rejection of the claims presented by COMM 3000

S.p.A. (formerly KPNQWest Italia S.p.A.) in the ruling of first instance and, in July, obtained the suspension of payment of a significant portion of the amount defined in the ruling.

TELEUNIT

With a writ of summons before the Rome Court, Teleunit has claimed 35.4 million euros in compensation from TIM, based on the known decision of the Italian Competition Authority that settled the A428 case. Specifically, the other party complained that in the period 2009/2010 it had suffered abusive conduct on TIM's part in the form of technical boycotting (refusals to activate network access services – KOs), and anticompetitive practices in the form of margin squeezing (excessive squeezing of discount margins, considered abusive inasmuch as they cannot be replicated by competitors). TIM filed an appearance, contesting all of the plaintiff's allegations. In October 2020, the dispute was settled by the parties at no extra cost to the company on the income statement.

With a writ of summons issued in October 2009 before the Milan Appeal Court, Teleunit asked that TIM's alleged acts of abuse of its dominant position in the premium services market be ascertained. The plaintiff quantified its damages at a total of approximately 362 million euros. TIM filed an appearance, contesting the claims of the other party.

After the ruling of January 2014 with which the Court of Appeal declared that it was not competent in this matter and referred the case to the Court, Teleunit reinstated the case before the Milan Court the following April. TIM filed an appearance in the reinstated proceedings challenging the plaintiff's claims.

In its judgement of May 2017, the Milan Court rejected Teleunit's claim in its entirety, and ordered the company to pay the legal costs of the case. This judgement was appealed by Teleunit, in June 2017, before the Milan Court of Appeal. TIM filed an appeal challenging the arguments presented by the other party and asking that the judgement in the first instance be fully confirmed. With an order in March 2018 the Milan Court of Appeal declared Teleunit's appeal pursuant to art. 348-bis of the Italian Code of Civil Procedure to be manifestly without foundation, and hence inadmissible. In May 2018 Teleunit appealed the judgement of the Court of Appeal to the Court of Cassation. TIM lodged a counter-appeal seeking confirmation in full of the order being appealed (and thus of the judgment at first instance).

SIPORTAL

Siportal has filed a lawsuit against TIM with the Court of Rome, by which Siportal has sued for approximately 48.4 million euros of compensation for alleged damages from abusive conduct in the form of technical boycotting over the period 2009–2011 and from the knock-on effects of the abuse until 2015, with the loss of commercial partners and the non-acquisition of new customers (the latter quantified for 25 million euros of damages). The claims are based on the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations. The Court of Rome decided in favor of Siportal on the one of the alleged plaintiff; the case will continue with the Court Appointed Expert. TIM reserves every right to protect its own interests. In October 2020, the dispute was settled by the parties at no extra cost to the Company on the income statement.

MC-Link

With writ of summons before the Rome Court, MC-Link filed a damages claim for a total of 51 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009–2012, in the form of technical boycotting (refusals to activate wholesale services – KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff's allegations.

Eutelia and Clouditalia Telecomunicazioni

With a writ of summons dated May 2020, Eutelia in Extraordinary Administration and Clouditalia Telecomunicazioni S.p.A., purchaser of Eutelia's TLC branch, brought an action against TIM before the Court of Rome, making claims for damages, of around 40 million euros, for damages allegedly suffered, in the period 2009–2012, following the technical boycott and margin squeeze conduct, subject of the AGCM A428 procedure. TIM filed an appearance contesting the claims of the other party and formulating a counterclaim reserving the right to quantify the damages suffered in the course of the proceedings.

Antitrust Case I761

With a ruling issued on July 10, 2013, AGCM (the Italian Competition Authority) extended to TIM the investigation started in March of the same year into some firms active in the fixed network maintenance sector. The investigation aims to establish if an agreement exists that is prohibited under article 101 of the Treaty on the Functioning of the European Union. The proceedings were initiated after Wind filed two complaints in which the ICA was informed that, based on an invitation to bid for the assignment of network corrective maintenance services, it had encountered substantial uniformity of prices offered by the aforementioned enterprises and a significant difference from the offers submitted subsequently by other and different companies.

The ICA alleged that TIM carried out a role of coordinating the other parts of the procedure, both during the formulation of the offers requested by Wind and in relation to the positions represented to communications regulator AGCom.

TIM challenged these proceedings before the Administrative Court (TAR), sustaining that the ICA does not have competence in this matter.

On July 7, 2014, the ICA notified the objective extension of the proceedings to check if the Company, abusing its dominant position, put in place initiatives that might influence the conditions of the offer of accessory technical services when the offers of the maintenance businesses to Wind and Fastweb were being formulated. With the extension provision, the ICA has also extended the deadline for closing the proceedings from the original date of July 31, 2014 to July 31, 2015. This extension was also challenged before the Lazio Administrative Court (TAR) sustaining that the Italian Competition Authority does not have competence in this matter.

In November 2014, for reasons of procedural economy and also convinced that it was acting legitimately, TIM presented to the Authority a proposal of undertakings in order to resolve the competition concerns subject of the investigation. In its resolution of December 19, 2014, the ICA considered that these undertakings were not manifestly groundless and later ordered their publication for the purposes of market testing.

On March 25, 2015, the ICA definitively rejected the aforesaid undertakings, considering them not suitable for removing the anticompetitive aspects investigated.

On July 21, 2015 the Communication of the Results of the Investigation was served on the parties to the proceedings, in which the Offices of ICA expressed their position in the sense of (i) archiving the complaints regarding the abuse of dominant position and (ii) confirming, instead, that there exists between TIM and the maintenance firms an agreement to coordinate the economic offers drawn up for Wind and Fastweb, and to prevent the unbundled supply of the ancillary technical services.

On December 16, 2015, the final order was issued, confirming the conclusions of the Communication of the Results of the Investigation, sustaining that, between 2012 and 2013, there existed an agreement that restricted competition, and as a result imposed a fine of 21.5 million euros on the Company, paid in March 2016. The relevant market is the corrective maintenance (assurance) market and, more precisely, the market for troubleshooting the TIM LLU lines. The purpose of the conduct maintained by the Company and the network firms would have been to limit competition and prevent the evolution of forms of unbundled supply of ancillary technical services.

TIM appealed the order before the Lazio Regional Administrative Court. In judgement no. 09554/2016 issued in September 2016, the appeal was dismissed, and the Company appealed this decision to the Council of State. On the outcome of the proceedings, with the ruling of December 2019, the Council of State, deciding in favor of TIM, annulled the AGCM I761 provision and referred the task of conducting a new investigation to AGCM, within the limits that decided by the Council of State itself.

In 2020, TIM obtained the return of amounts paid by way of sanction.

Wind (I761)

With a writ of summons before the Court of Milan, Wind claimed compensation from TIM of 57 million euros, recently increased during the proceedings to around 58 million euros, for damages arising from alleged anti-competitive conduct censured in the ICA case I-761 (on corrective maintenance). According to the plaintiff, this conduct delayed and hindered its ability to obtain more favorable conditions in the unbundled purchase of service to repair faults on the LLU access lines, and their effects, initially stated to have been lasted until December 2015 and subsequently alleged by Wind to be ongoing. TIM has filed an appearance challenging the claims made by the other party. In December 2020, the case was settled as part of a global settlement with Wind Tre.

Vodafone (I761)

With a writ of summons before the Milan Court, Vodafone has sued TIM and some network companies, bringing claims for compensation from the Company for around 193 million euros for damages arising from alleged anti-competitive conduct censured in the known ICA case I-761 (on corrective maintenance) referring to the period from 2011 to 2017.

Vodafone contests the alleged breach of the competition rules carried out by TIM, in the wholesale markets giving access to its fixed network (LLU lines; Bitstream; WLR), through the abuse of a dominant market position and an unlawful agreement with the maintenance companies to maintain the monopoly on the offer of corrective maintenance services on its network. Specifically, the restrictive agreement allegedly concerned the coordination, by the Company, of the economic terms and conditions contained in the bids for maintenance services prepared by the aforementioned companies for OAOs, with artificially high prices with respect to the cost of the maintenance included in the regulated access fee, with a view to discouraging the disaggregation of the service itself. The Company filed an appearance, contesting all of the other party's requests.

Italian Competition Authority Case A514

In June 2017 the Italian Competition Authority (AGCM) started proceedings A514 against TIM, to ascertain a possible abuse of its dominant market position in breach of article 102 of the “Treaty on the Functioning of the European Union”. The proceedings were started based on some complaints filed in May and June 2017, by Infratel, Enel, Open Fiber, Vodafone and Wind Tre, and concerns a presumed abuse of TIM's dominant position in the market for wholesale access services and for retail services using the broadband and ultra-broadband fixed network. In particular, the ICA hypothesized that TIM had adopted conduct aimed at: i) slowing and hindering the course of the Infratel tender processes so as to delay, or render less remunerative the entry of another operator in the wholesale market; ii) pre-emptively securing customers on the retail market for ultrabroadband services by means of commercial policies designed to restrict the space of customer contendability remaining for the competitor operators.

After the start of the proceedings, the Authority's officials carried out an inspection at some of TIM's offices in the month of July 2017. On November 2, 2017, TIM filed a defense brief in which, in support of the correctness of its actions, it challenged all the arguments that the conduct it had allegedly engaged in, and which was the subject of the case, was unlawful.

On February 14, 2018, AGCM resolved to extend the scope of the case to investigate further behavior concerning TIM's wholesale pricing strategy on the market for wholesale access to broadband and ultrabroadband, and the use of the confidential information of customers of the alternative operators.

On July 5, 2018 TIM filed proposed undertakings which, if accepted by the Authority, would close the investigation without any offense being established or sanction being administered. The undertakings were considered as admissible by the Authority, that market tested them in August and September.

On October 30, 2018, TIM replied to observations made by third parties and modified its proposed undertakings. With its decision notified on December 4, 2018, the Italian Antitrust Authority once and for all rejected the proposed series of undertakings as it considered them unsuitable in light of the objections raised.

On March 4, 2019, TIM requested AGCM for an extension of the deadline for closing the proceedings (initially set for May 31, 2019).

On April 10, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until September 30, 2019. On May 17, 2019, AGCM notified TIM of the results of the investigation (CRI). In the CRI, AGCM essentially confirmed the case for the prosecution outlined in the start-up and extension of the proceedings orders.

On June 12, 2019 AGCM extended the deadline for deposit of TIM's final defense to September 20, 2019 and set the final hearing for September 25, 2019.

On September 18, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until February 28, 2020.

On March 6, 2020, TIM was notified of the decision to close the investigation: AGCM ruled that TIM had abused its dominant position, finding that TIM had put in place an anti-competitive strategy designed to hinder the competitive development of investment in UltraBroadBand network infrastructure.

The fine imposed on TIM for the anti-competitive offense is 116,099,937.60 euros. TIM appealed the aforementioned fine before the Lazio TAR, contesting both the merits of the accusations and the amount of the imposed fine.

On June 25, 2020 TIM sent the so-called compliance report as ordered in the final provision. The Lazio TAR has scheduled a hearing for oral discussion for November 3, 2021.

Open Fiber

In March 2020, Open Fiber (OF) sued TIM before the Court of Milan, claiming damages of 1.5 billion euros for alleged abuse of an exclusive and dominant position in relation to OF. The alleged actions consist of: (i) pre-emptive investments in FTTC networks in white areas; (ii) initiating specious legal action to obstruct Infratel tenders; (iii) spurious repricing of certain wholesale services; (iv) commercial lock-in offers on the retail market; (v) false disclosure to AGCom in connection with the approval of a wholesale offer and spreading rumors about TIM being interested in acquiring OF; (vi) discriminatory access conditions to TIM passive infrastructure. TIM filed an appearance, contesting the arguments of.

Enel S.p.A. intervened in the proceedings, asking that TIM be ordered to compensate all damages suffered and being suffered by Enel and OF.

TIM challenged the A514 fine measure before the Lazio TAR, which was widely referred to by the counterparty in the writ of summons.

Vodafone

In January 2021, Vodafone Italia S.p.A. summonsed TIM to the Court of Milan, making a claim for damages of approximately 100 million euros for damages allegedly suffered as a consequence of the unlawful conduct of TIM, as sanctioned by the AGCM, with the provision that concluded case A514.

The conduct of TIM sanctioned by the Authority allegedly resulted in a slowing of the penetration of UBB infrastructures on the market of white areas and, consequently, the delayed or failed acquisition of new customers by Vodafone, as well as a hindrance to acquiring additional customers as a result of the alleged binding practices over the whole of national territory. TIM will file an appearance with a series of solid legal arguments for its own protection.

Fastweb

In February 2021, Fastweb S.p.A. summonsed TIM to the Court of Milan, making a claim for damages of approximately 996 mln euros for damages allegedly suffered as a consequence of the unlawful conduct of TIM, as sanctioned by the AGCM, with the provision that concluded case A514, as well as allegedly opportunistic suspensions of activation orders sent by Fastweb.

Fastweb complains that TIM allegedly delayed the wholesale offer of ultrabroadband services by Open Fiber in the white areas, consequently slowing the offer of said services by Fastweb to its end customers in these areas; binding practices were implemented in relations with the end customer, hindering access to the market by alternative operators (including Fastweb). In addition, TIM allegedly instrumentally managed the supply process of wholesale access services to its fixed broadband and ultrabroadband network, opportunistically suspending the activation orders submitted by Fastweb and thereby hindering its activation of new customers. TIM will file an appearance laying out solid arguments refuting Fastweb's claims.

Antitrust Case I799

At its meeting on February 1, 2017, AGCM initiated an investigation for possible breach of Article 101 of the TFEU (prohibition of agreements that restrict competition) against TIM S.p.A. and Fastweb S.p.A., following the signing of an agreement aimed at setting up a cooperative joint venture called Flash Fiber S.r.l.. TIM, in agreement with Fastweb, submitted some amendments to the agreements signed, in the form of proposed undertakings, aimed at closing the investigation without any breach being ascertained and, therefore, without any fine.

On March 28, 2018, AGCM resolved to approve the undertakings, making them binding on the Parties, and closed the case without imposing any fine.

On January 30, 2019, TIM sent the planned annual report on the provided coverage to AGCM, supplemented by a subsequent communication dated March 29, 2019. TIM transmitted further details to AGCM in July and AGCM acknowledged it on October 15, 2019. On January 31, 2020 TIM sent AGCM the third report on the implementation of the commitments made.

On June 11, 2018 Open Fiber S.p.A. and Wind Tre S.p.A. filed separate appeals to the Lazio Regional Administrative Court (TAR) against the order closing case I799 with the acceptance of the undertakings. They allege that this order has a series of procedural and substantial defects.

Open Fiber S.p.A. also asked for the precautionary suspension of the order.

In a ruling of March 2020, the Regional Administrative Court rejected in full the appeal by Open Fiber S.p.A. A hearing on the merits has not yet been scheduled for Wind Tre's appeal.

Vodafone

In June 2015 Vodafone issued proceedings for damages in the Milan Court for alleged abuse of a dominant position by TIM in the bitstream "NGA" and "VULA" fiber access services market, initially claiming around 4.4 million euros, increased to a figure ranging from 30 to 48.9 million euros.

The plaintiff complained that TIM allegedly had engaged in abusive conduct by way of aggressive price offers to win customers and by hindering Vodafone's access to the fiber network to make it more difficult for the party to provide ultra-broadband services to its customers.

TIM has filed an appearance, challenging the claims of the plaintiff in full and, subsequently, the revised estimate of damages made in 2016 during the case.

Eutelia and Voiceplus

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by TIM of its dominant position in the premium services market (based on the public offer of services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.

The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviors of the Company relating to the management of some financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers, for which TIM managed the payments from the end customers, on behalf of such OLOs and in the light of regulatory requirements. After the ruling with which the Milan Court of Appeal accepted TIM's objections, declaring that it was not competent in this matter and referring the case to the Civil Court, Eutelia in extraordinary administration and Voiceplus in liquidation resubmitted the matter to the Milan Court. The first hearing took place in the month of March 2014. TIM filed an appearance challenging the claims of the other parties. After the collapse of Voiceplus, the Milan Court declared the case suspended, in an order in September 2015. The case was later resumed by Voiceplus.

With a judgment issued in February 2018, the Milan Court accepted TIM's defense and rejected the plaintiffs' claim for compensation, ordering them, jointly and severally, to pay the legal costs. In March 2018 Eutelia and Voiceplus proposed an appeal against the judgement in the first instance.

TIM appealed against the claim, requesting confirmation in full of the judgment in the first instance. The appeal of Eutelia and Voiceplus was fully rejected with the judgment of August 5, 2019. In December 2019 Eutelia and Voiceplus appealed to the Court of Cassation over the judgment of the Court of Appeal. TIM notified a counterclaim asking confirmation of the ruling appealed against.

28 day billing

Resolution 121/17/CONS introduced instructions on billing intervals for telephony, prescribing, for fixed telephony, that the interval should be monthly, or multiples thereof, and, for mobile telephony, that it should be at least four-weekly. TIM appealed Resolution 121/17/CONS to the Regional Administrative Court. The judgment rejecting the appeal was published in February 2018. TIM appealed this judgment to the Council of State in June 2018. On September 23, 2020, the non-definitive ruling was published whereby the Council of State joined the appeals submitted by TIM, Vodafone, Fastweb and Wind Tre and ordered the prejudicial deferral to the European Union Court of Justice (EUCJ) on whether or not the Authority had the power to regulate the frequency of renewal of the commercial offers and invoicing periods, at the same time rejecting the other grounds of appeal submitted by the operators and suspending proceedings. In February 2021, TIM filed its written observations on the requests for prejudicial judgment with the EUCJ.

With its Resolution 499/17/CONS, having confirmed the breach of Resolution 121/17/CONS, AGCom fined TIM 1,160,000 euros, ordering it to make provision – when the billing cycle was restored to monthly intervals or multiples thereof – to return the amounts corresponding to the fee for the number of days that, from June 23, 2017, had not been used by the users in terms of the supply of service due to the misalignment of the four-weekly and monthly billing cycles. TIM also appealed this second resolution to the Regional Administrative Court of Lazio, asking for its precautionary suspension which, on February 22, 2018, was accepted by the Regional Administrative Court of Lazio limited to the part relating to the reimbursement orders.

Subsequently, Law no 172 of December 4, 2017 decreed that contracts for the supply of electronic communications services should obligatorily prescribe that the renewal of offers and the billing of services be based on a month, or multiples thereof. TIM adapted to this order within the period of time prescribed by law, namely within 120 days of the date it came into force (April 5, 2018).

In March 2018, with Decision 112/2018/CONS AGCom (i) cautioned TIM, with regard to fixed-line voice services only, against postponing the starting date of invoices issued after the return to monthly invoicing by the same number of days as those presumably deducted starting from June 23, 2017 with the four-weekly invoicing cycle; and (ii) revoked the preceding resolution 499/17/CONS in the part in which TIM was ordered to repay the amounts presumably lost from June 23, 2017 onwards, with the four-weekly billing cycle. This resolution was also challenged by with an additional submission triggered as part of the appeal against resolution 499/17/CONS, with a request for single precautionary measures, which was provisionally granted until the hearing before the Council on April 11, 2018 with a Presidential Decree published on March 26, 2017.

Under Presidential Decree 9/18/PRES, AGCom amended the provisions of Decision 112/18/CONS requiring the deferment of billing once the billing cycle was restored to monthly intervals, or multiples thereof, while also ordering that the timescales for complying with the order would be identified after hearings with the operators and the main consumer protection associations. TIM and the other operators affected by the presidential decree waived the precautionary petition against Resolution 112/18/CONS. In May 2018, TIM therefore appealed AGCom Presidential Decree 9/18/PRES and Resolution 187/18/CONS which ratified this decree.

In July 2018, AGCom issued resolution 269/18/CONS, with which it set December 31, 2018 as the date by which the operators must return to their fixed network customers a number of days of service equal to those eroded as an effect of 28-day billing, or propose to the affected customers any alternative compensatory measures, after having notified them to AGCom. TIM, in keeping with actions taken and arguments made, intends to appeal this resolution.

In September 2018, TIM appealed Resolution 297/18/CONS in which AGCom imposed a fine of 696,000 euros for having continued to adopt – in violation of AGCom resolution 121/17/CONS – four-weekly billing and renewal of consumer offers as from February 16, 2018 (and until March 31, 2018).

With the judgment published in November 2018, the TAR canceled the pecuniary administrative sanction of 1.16 million euros imposed with Resolution 499/17/CONS, and confirmed the obligation of restitutio in integrum to the fixed-line customers by December 31, 2018. TIM submitted its preventive appeal before the Council of State to interrupt execution of said decision and, with its ruling of December 20, 2018, the Council of State, in upholding TIM's appeal, interrupted the effectiveness of the aforesaid decision for the reversal order only, until March 31, 2019.

In November, 2018, AGCom published resolution 521/18/CONS with which it imposed a sanction of 1,044,000 euros on TIM. The sanction was imposed for breach of the transparency rules and rights to withdraw in amending the contractual terms and conditions of the mobile offers applied to customers starting from April 8, 2018 following restoration of monthly billing. TIM appealed this resolution as well to the Regional Administrative Court in January 2019. Following a new application submitted by TIM, the Council of State, with its ruling published on March 20, 2019, extended the precautionary measure to suspend the effectiveness of the decision until May 21, 2019 while awaiting publication of the grounds for the judgment.

Having acknowledged the publication of the grounds of the ruling handed down on May 10, 2019, the Council on May 21, 2019 ordered postponement of discussion of the application for precautionary measures to the Council meeting of July 4, 2019 in order to allow TIM to finalize its additional grounds with a new application for precautionary measures. Following this hearing, the Council of State rejected TIM's application to suspend execution of the ruling of the Regional Administrative Court with its ruling published on July 5, 2019, so it is operational starting from May 21, 2019. The hearing to discuss the introductory appeal and additional grounds submitted by TIM in the meantime is still, as of writing, to be set. On July 12, 2019 the ruling mechanisms with which the Council of State rejected the similar appeals made by Vodafone, Wind Tre and Fastweb were published and in February 2020 the judgments containing the grounds were published.

In September 2019, TIM also challenged resolution 221/19/CONS, before the Regional Administrative Court (TAR), with which the sanction pursuant to Resolution 499/17/CONS, canceled by the Regional Administrative Court of Lazio, was recalculated to the amount of 580,000.00 euros, with the maximum fine provided for by Art. 98, paragraph 16 of the CCE in force at the time of the events applied.

In August 2019, AGCom initiated new proceedings (CONT 12/19/DTC) for failure to comply with the order to refund the days eroded by billing every 28 days for fixed network and convergent customers, according to the procedures established with resolutions nos. 112/18/CONS and 269/18/CONS. On conclusion of these proceedings, by means of Resolution 75/20/CONS, the Authority found that TIM did not comply with the above resolutions, imposing a fine of 3 million euros. The measure was challenged by TIM before the TAR in July 2020.

In June 2019, TIM had in any case decided to offer its fixed network customers, active prior to the March 31, 2018 and subjected to billing every 28 days, the possibility of accepting a compensatory solution, an alternative to refunding the eroded days pursuant to AGCom resolution no. 269/18/CONS. Subsequently, from September 2019, TIM decided to also accept requests for the refund of the eroded days. In both cases, TIM informed customers with several messages in the bill, on the web in the main newspapers. The initiatives just described were communicated to AGCom as part of the aforementioned penalty proceedings.

Antitrust Case I820

On February 19, 2018, AGCM initiated a I820 preliminary proceeding against the companies TIM, Vodafone, Fastweb and Wind Tre and the industry association ASSTEL to investigate the alleged existence of an agreement among the major fixed-line and mobile telephone operators to restrict competition by coordinating their respective commercial strategies, in breach of Article 101 of the TFEU.

The presumed coordination, according to the opening provision of the proceedings by AGCM, would take the form of implementation of the obligation introduced by Article 19-quinquiesdecies of Legislative Decree 148/2017 (converted by Law 172/2017) which requires operators of electronic communication services to send out monthly (or monthly multiples) bills and renewed offers for fixed and mobile services.

On March 21, 2018, AGCM issued a provisional precautionary measure against all the operators involved in the proceedings with which it ordered the suspension, pending the proceedings, of the implementation of the agreement concerning the determination of repricing communicated to users at the time of reformulating the billing cycle in compliance with Law 172/17 and to independently redetermine its commercial strategy. With its decision no. 27112 of April 11, 2018, AGCM confirmed the precautionary measure.

On June 12, 2018, TIM filed an appeal with the TAR for the quashing of said measure.

In its session on June 27, 2018, AGCM took note of the brief submitted by TIM regarding compliance with the precautionary measure.

On July 17, 2019, AGCM resolved to extend the deadline for conclusion of the proceedings until January 31, 2020.

In the findings of the preliminary inquiry (CRI) communicated by AGCM to TIM, the Offices confirm the existence of a unique, complex and continuous agreement restricting competition between Telecom, Vodafone, Fastweb and Wind Tre, with the facilitation of the Asstel category association.

On October 10, TIM filed its final brief, and the final hearing was held on October 15 at AGCM.

On January 31, 2020, TIM was notified of the decision to close the investigation, in which AGCM confirmed the existence of the agreement between Telecom, Vodafone, Fastweb and WindTre, but excluding Asstel from participation in the agreement. The fine imposed on TIM for participation in the anti-competitive agreement was 114,398,325 euros. In April 2020, TIM also challenged the sanction order and following the motion, the public hearing was scheduled for May 26, 2021.

Antitrust Case I850

By decision given on December 15, 2020, the Italian Competition Authority (AGCM) started an investigation in regard to the company Telecom Italia S.p.A., Fastweb S.p.A., Teemo Bidco S.r.l., FiberCop S.p.A., Tiscali Italia S.p.A. and KKR & Co. Inc., to ascertain the existence of any breaches of article 101 of the TFEU.

More specifically, the investigation regards the contracts governing the establishment and operation of FiberCop and the supply agreements with Fastweb and Tiscali.

AGCM intends to verify that such agreements do not hinder competition between operators in the medium and long-term and assure the rapid modernization of the country's fixed telecommunications infrastructures.

The case should be concluded by December 31, 2021.

Vodafone Dispute – Universal Service

In a decision published in July 2015, the Council of State rejected the appeal lodged by AGCom and TIM against the judgment of the Lazio Administrative Court (TAR) on the financing of the universal service obligations for the period 1999–2003. With this judgement the judge had granted the appeals by Vodafone, annulling AGCom decisions 106, 107, 109/11/CONS on the renewal of the related proceedings, which included Vodafone among the subjects required to contribute, for a sum of approximately 38 million euros. Essentially, the judgement confirms that the Authority has not demonstrated the particular degree of "replaceability" between fixed and mobile telephony for mobile operators to be included among the subjects required to repay the cost of the universal service, which means that AGCom needs to issue a new ruling.

TIM has filed an application with AGCom to renew the proceedings, and an appeal against the judgement of the Court of Appeal to the Court of Cassation (which subsequently ruled that the appeal was inadmissible).

In April 2016 Vodafone appealed against the Ministry of Economic Development (MISE) and TIM to the Council of State, for non-compliance with the judgement of the Council of State. This appeal referred to AGCom decision 109/11/CONS (2003 yearly payment, on the basis of which Vodafone had paid the sum of approximately 9 million euros as contribution, restitution of which was requested).

In its judgment of November 2016, the Council of State rejected the appeal, referring to the Regional Administrative Court (TAR) the decision on the methods of compliance. In February 2017, Vodafone presented the Lazio Regional Administrative Court with four new appeals against the Ministry of Economic Development and TIM regarding observance of the ruling, upheld on appeal, countermanding the resolutions for the years 1999–2003 and repayment of the aforesaid amounts of around 38 million euros already paid to the Ministry of Economic Development as a contribution.

With a judgment issued in June 2018, the TAR rejected all of Vodafone's appeals for observance, and, as requested by TIM, expressly affirmed that AGCom must renew the proceedings, particularly with regard to the determination of the degree of replaceability between fixed and mobile telephony. Vodafone challenged the four judgments before the Council of State, which, with a decision of October 2019, upheld Vodafone's appeal and confirmed the restitutory obligation of the sums in question applicable to TIM.

Dispute relative to "Adjustments on license fees" for the years 1994–1998

With regard to the judgements sought in previous years concerning the Ministry of Communications' request for payment of the balance of the amounts paid in concession charges for the years 1994–1998 (for a total of 113 million euros), the Administrative Court (TAR) for Lazio rejected the Company's appeal against the request for adjustment of the license fee for 1994 in the amount of approximately 11 million euros, 9 million euros of which against turnover not received due to bad debts. TIM lodged an appeal. On the outcome of proceedings, with the ruling of December 2019, the Council of State partially accepted TIM's position, establishing the principle, according to which, the receivables referring to 1994 not collected for reasons not attributable to the operator, could have been deducted from the tax base for calculating the concession fee.

With two further judgements the Administrative Court (TAR) for Lazio, reiterating the reasons expressed previously, also rejected the appeals in which the Company challenged the requests for payment of outstanding balances of license fees for the years 1995 and 1996–1997–1998, in the amount of approximately 46 million euros. TIM has appealed before the Council of State also against these judgements.

With reference to the 1998 fee adjustment (equal to about 41 million), the Lazio TAR, by TAR order of December 2018, suspended the judgment, raising preliminary questions with the EU Court of Justice on the correct scope of EC Directive no. 97/13 (in the matter of general authorizations and individual licenses in the field of telecommunications services on the basis of the currently pending litigation on the 1998 license fee, currently pending before the Rome Court of Appeal and illustrated in a subsequent paragraph).

The referred questions were based, *inter alia*, on the question posed to the Court of Justice on the possible conflict between the aforementioned EC Directive 97/13 and national law, which extended the obligation for telecommunications license-holders to pay the license fee for 1998 (commensurate with a portion of turnover), despite the liberalization process underway. In its judgment of March 2020, the EU Court of Justice held that the EU regulatory system must be interpreted as not allowing national legislation to extend to 1998 the obligation imposed on a telecommunications undertaking that was previously the concession holder (such as TIM) to pay a fee calculated on the basis of turnover and not only the administrative costs connected with the granting, management, control and implementation of the general authorizations and individual licenses scheme. The Court held, *inter alia*, that the Council of State – having held in its judgment 7506/2009 that the fee imposed for 1998 on TIM, the holder of an authorization existing on the date of entry into force of Directive 97/13, was due – interpreted national law in a way that was incompatible with EU law, as interpreted by the Court in its judgment of February 21, 2008. Following the judgment of the EU Court of Justice, the opinion on the final calculation of the 1998 charges was summarized before the Lazio Regional Administrative Court, which, in a judgment given last February, declared TIM's appeal as unacceptable for procedural reasons, namely due to the prevalence of the formal ruling consisting of judgment no. 7506/09; in substantive terms, on the other hand, the judgment of the EU Court of Justice once again ascertained the European Community unlawful nature of the credit claim by the PA to obtain payment of the 1998 charges and, consequently, the final balance. The company will challenge the judgment of the Lazio Regional Administrative Court in the required manner.

Wind Tre

With writ of summons before the Milan Court, served in April 2019, Wind Tre S.p.A. filed a damages claim against TIM for approximately 255 million euros in compensation for damages arising from alleged anticompetitive conduct in the years 2014-2018. More specifically, according to Wind Tre, TIM allegedly illegally used information gained when supplying provisioning and wholesale services assurance through its sales division to convince customers to return to TIM or to activate the new user with TIM; carried out commercial promotion activity for TIM through its technical personnel when repairing failures or activating Wind Tre users; behaved unfairly in order to get Wind Tre customers to switch over to TIM. To support its arguments, Wind Tre also pleads some elements that emerged during the investigation for the AGCM A514 case. TIM has filed an appearance, fully contesting the claims of the other party and making a counterclaim, based on facts similar to those put forward by the plaintiff, reserving the right to quantify the damages suffered. In its initial pleadings, Wind Tre extended its claims to June 2019 and quantified the damages claimed at approximately 346 million euros. TIM has made its counterclaim for around 20 million euros for damage to its commercial image, as well as damage due to loss of customers, to be quantified in the course of the proceedings, possibly on an "ex aequo et bono" basis. In December 2020, the case was settled as part of a global settlement with Wind Tre.

Poste

There are some pending actions brought, at the end of the 1990s, by Ing. C. Olivetti & C. S.p.A. (now TIM) against Poste, the Italian postal service, concerning non-payment of services rendered under a series of contracts to supply IT goods and services. The judgements issued in the lower courts established an outcome that was partially favorable to the ex-Olivetti, and have been appealed against by Poste in individual rehearings.

In this respect, while a 2009 judgement of the Rome Appeal Court confirmed one of the outstanding payables to TIM, another judgement by the same Court declared void one of the disputed contracts. After this judgement, Poste had issued a writ for the return of approximately 58 million euros, opposed by TIM given that the judgement of the Supreme Court for amendment of the above judgement is still pending.

After the 2012 judgement of the Supreme Court that quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter of issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected. The judgement was resubmitted to another section of the Rome Appeal Court. In ruling no. 563 of January 25, 2019, the Rome Court of Appeal at the time of proceedings, reversing the Company's previous unfavorable appeal, confirmed the contract's validity and, with it, the legitimacy of TIM's view of the amount already collected, of which Poste had requested reimbursement. This ruling was challenged by Poste with appeal filed with the Court of Cassation, notified on July 31, 2019, which TIM challenged with relevant counter appeal.

Elinet S.p.A. Bankruptcy

In 2014, the trustees in the bankruptcy of Elinet S.p.A., and subsequently the trustees of Elitel S.r.l. and Elitel Telecom S.p.A. (the parent, at the time, of the Elitel group) appealed the judgment by which the Court of Rome dismissed the damages claim brought by the trustees of the Elinet-Elitel group, filing a new damages claim for a total of 282 million euros. The Company is alleged to have exercised management and control powers over the

plaintiff, and, with it, over the Elitel group (an OLO in which TIM has never held any equity interest) through the management of trade receivables. TIM filed an appearance, challenging the claims made by the other party. The judgment on the appeal was handed down with ruling in July 2019, which with reference to TIM confirmed full legality of its conduct and total non-existence of any element of management and coordination. The receivers of Elinet S.p.A. and Elitel Telecom S.p.A. appealed to the Court of Cassation in January 2020 to obtain the annulment of the judgment in the second instance. The receiver of Elitel S.r.l. has not filed an appeal with the Court of Cassation and, consequently, the total claim for damages has been reduced to 244 million euros. TIM notified a counterclaim asking confirmation of the ruling appealed against.

Antitrust proceedings PS11532 – “TIM in Nave”

Launched on December 4, 2019 prompted by complaints filed by several consumers, the proceedings, for the “TIM in Nave” service with the challenge of Deceptiveness on customer information profiles and aggressiveness profiles. “TIM in Nave” is not an ancillary service, but, in full compliance with the sector regulations, a type of roaming tariff which is activated when the customer is under the maritime coverage network. Significant commitments were made to improve information, making the consumer fully aware of how “TIM in Nave” works. Proceedings ended on July 28, 2020 with the imposition of a fine equal to 1.8 million euros. Similar proceedings also ended against the other major operators. TIM appealed the measure to the Regional Administrative Court of Lazio, asking for its cancellation and alternatively the reduction of the fine.

Antitrust Case IP 327 - IBAN discrimination

Officially started on December 23, 2019 by the Authority, the proceedings concern the alleged non-compliance with the provisions of PV4 on IBAN Discrimination, dated April 2019. In particular, AGCM disputed that the direct debit process on the web channel is not yet automated and therefore the customer is not autonomous in managing this activity. TIM eliminated all forms of discrimination between Italian banks and SEPA area banks with the complete automation of the web domiciliation process. Proceedings ended on July 3, 2020 with the imposition of a fine of 500,000 euros. Similar proceedings also ended against the other major operators.

Brazil - Opportunity Arbitration

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 claimant'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 Court 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 (the “2016 Arbitration Award”).

In April 2017 the Opportunity group filed an appeal against the 2016 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 2016 Arbitration Award, filed by the Opportunity group, asking for a new award. 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 2016 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 2016 Arbitration Award, in October 2019 the ICC held the discussion hearing in Paris. In August 2020, the Arbitration Court issued the award rejecting the Request for Revision presented by the Opportunity Group (the “2020 Arbitration Award”). In December 2020, the Opportunity group filed an appeal against the 2020 Arbitration Award before the Paris Court of Appeal.

Iliad

By summons served during the first quarter of 2020, Iliad Italia S.p.A. sued TIM before the Court of Milan for alleged anti-competitive conduct, including through the Kena Mobile brand, which was allegedly aimed at hindering its entry to and consolidation in the mobile phone market in Italy, seeking damages of at least 71.4 million euros.

TIM filed an appearance, fully disputing the requests of Iliad Italia S.p.A.; and, in turn, submitting a counterclaim in accordance with Art. 2598 of the Italian Civil Code, with reference to the denigration implemented by Iliad Italia S.p.A. in regard to TIM and formulating a symmetrical claim for compensation for damages. In the first preliminary brief, Iliad updated its claim for damages, taking it to 242.8 million euros. The next hearing is scheduled for April 13, 2021.

b) Additional information

Mobile telephony - criminal proceedings

In March 2012 TIM was served notice of the conclusion of the preliminary enquiries, which showed that the Company was being investigated by the Public Prosecutor of Milan pursuant to the Legislative Decree n. 231/2001, for the offences of handling stolen goods and counterfeiting committed, according to the alleged allegations, by fourteen employees of the so-called “ethnic channel”, with the participation of a number of dealers, for the purpose of obtaining undeserved commissions from TIM.

The Company, as the injured party damaged by such conduct, had brought two legal actions in 2008 and 2009 and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defense, together with a technical report by its own expert, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. In December 2012, the Public Prosecutor's Office filed a request for 89 defendants and the Company itself to be committed for trial.

During the preliminary hearing, the Company was admitted as civil party to the trial and, in November 2013, the conclusions in the interest of the civil party were filed, reaffirming TIM's total lack of involvement in the offences claimed.

At the end of the preliminary hearing, which took place in March 2014, the Judge for the Preliminary Hearing committed for trial all the defendants (including TIM) who had not asked for their situation to be settled with alternative procedures, on the grounds that “examination in a trial” was needed. In April 2016, at the end of the first part of the trial, the Public Prosecutor asked for TIM to be sentenced to pay an administrative fine of 900 thousand euros, but decided not to ask for confiscation of any of the presumed profits of the offences (quantified in the committal proceedings as totaling several million euros), based on the assumption that TIM had in any event remedied the presumed organizational inadequacies. While acknowledging the considerable redimensioning of the accusations, the Company has reiterated its total non-involvement in the facts at issue. In November 2016 the Court gave a verdict acquitting the Company on the grounds that there was no case to answer. All the individuals charged were also acquitted on various grounds.

The Public Prosecutor appealed the acquittal and appealed to the Court of Cassation “per saltum”. In January 2019, the Italian Supreme Court of Cassation agreed to the appeal and therefore ordered that the documents of the proceedings be sent to the Milan Court of Appeal.

The proceedings were assigned to Chambers IV of the Milan Court of Appeal and are awaiting scheduling of the hearing.

Dispute concerning the license fees for 1998

TIM has issued civil proceedings against the office of the Prime Minister for compensation of the damage caused by the Italian State through appeal judgement no.7506/09 by the Council of State that, in the view of the Company, violates the principles of current European community law.

The main claim which the proceedings are founded on is based on community jurisprudence that recognizes the right to assert the responsibility of the State in relation to violation of rights recognized in community law and injured by a judgement that has become definitive, in respect of which no other remedy may be applied. The judgement of the Council of State definitively denied TIM the right to obtain restitution of the concession charge for 1998 (totaling 386 million euros for Telecom Italia and 143 million euros for the former TIM Company, plus interest), already denied by the Lazio regional administrative court despite the favorable and binding opinion of the European Court of Justice in February 2008. This judgement concerned the conflict between EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and the national regulations that had deferred, for 1998, the obligation to pay the fee payable by telecommunications

concession holders, despite the intervening deregulation process. The Company then proposed an alternative compensation claim, within the sphere of the same proceedings, for tort pursuant to art. 2043 of the Italian Civil Code. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation. The Avvocatura di Stato filed an appearance and submitted a counterclaim for the same sum. The case is subject to eligibility analysis by the Court, which declared the inadmissibility of TIM's main claim (case for damages for manifest breach of community law pursuant to law 117/88). However, this decision was amended in favor of the Company on appeal. In March 2015 the Rome Court issued its judgment in the first instance, declaring the Company's application inadmissible. In 2015, TIM appealed this decision and the judgment is pending in the closing arguments. The Court of Appeal has scheduled the hearing for the closing arguments for April 2, 2019. Thereafter, without any new procedural activities having taken place, the Court of Appeal incontrovertibly deferred the hearing for closing arguments first to 2020 and then to 2021 (from when the terms for conclusion and replies shall run, which will be followed shortly thereafter by the issue of the judgment). These deferrals were followed by the latest, of January 15, 2021, scheduling the new hearing for January 25, 2022.

On the matters underlying the case, the following must be noted:

- on the considered lack of jurisdiction of the Court of Rome (concerned by the judgment of the Court of Rome appealed by TIM) to judge the liability of the Italian government for the work of senior magistrates (in the case in point, the Council of State), which would have led to the declared inadmissibility of the claim in accordance with Art. 5, law no. 117/1978 (old text) - the United Chambers of the Court of Cassation ruled with judgment no. 14842 on June 7, 2018, confirming the jurisdiction of the Court of Rome and, therefore, the correctness of TIM's choice to base its lawsuit in the Court of Rome;
- on the unlawful nature of the conduct of the Italian government - and, therefore, on the liability of the State - Court in accordance with Law no. 117/1998 - once again, the EU Court of Justice has ruled, deciding on the prejudicial matter raised by the Lazio TAR in other, connected proceedings, in its judgment given on March 4, 2020 in C-34/19, stressing that TIM was not required to pay the charges demanded by the State for 1998 and, therefore, confirming the clear violation by the Council of State of European Community law (also because in clear conflict with the decision already given by the EU Court of Justice on February 21, 2008 in C-296/06, as, moreover, already ruled by the Court of Appeal of Rome, Chambers I, in Decree of January 31, 2012, which sanctioned the procedural admissibility of TIM's lawsuit);
- on the matter of the right to repeat the charges paid for 1998 - the Court of Cassation ruled in its judgment no. 18603 given on September 7, 2020, rejecting the appeal brought by the Presidency of the Council against the judgment whereby the Court of Appeal of Rome had upheld the claim for compensation made by Vodafone (payment of charges for 1998) for the same title in separate proceedings.

In short, the Company paid the charges disputed in 1998; it promptly challenged the administrative provision that had unfairly required said payment, before the administrative court; the administrative proceedings before the Council of State concluded negatively in 2009 (despite the recalled opposite judgment of the European Court of Justice); the civil proceedings of first instance concluded in March 2015 with a judgment of rejection for grounds of admissibility (then solved in the sense indicated by the company with the referenced judgment of Cassation in United Chambers no. 14842/18) and more than 6 years after the first instance judgment - going from deferral to deferral - the appeal judgment (that could only uphold the mentioned judgments of the Court of Justice and the Court of Cassation) has not yet been issued (nor, on the basis of these repeated deferrals, can the company forecast when it will be given).

The Company is examining the various scenarios and legal claims (national, European Community, etc.) that may contribute towards defining the appeal dispute. It is considered, in fact, that the principles of the reasonable duration of the trial, in accordance with subsection 2 of article 111 of the Constitution and in accordance with article 6 of the European Convention on Human Rights, are violated by these events, considering: (i) the year in which payment was made of the undue charges is 1998; (ii) the value of these charges is approximately 529 million euros plus interest from that date; (iii) the extremely long procedural process has not even led to an appeal judgment (started in 2015 and with an unpredictable conclusion, given the continuous deferrals); (iv) the circumstance that the legal matter appears to be readily able to be settled, as not one but two judgments have already been given by the EU Court of Justice declaring payment of the charges to be incompatible with European Community legislation (judgments that have currently been ignored by the national court).

In these analyses aimed at settling the appeal judgment, it must be noted that on January 25, 2021, the Company filed a request to bring the hearing forward with the Rome Court of Appeal (it had been postponed, as mentioned,

to January 25, 2022); the idea of this was to prevent yet another deferral of the case, which - as we know - regards breach of not one but two decisions given inter partes on the same matter, by the European Union Court of Justice, due to clear violation of European law by the State-Court. By order given on February 8, 2021, the Court of Appeal of Rome (second chambers specialized in business matters) considered the petition for an earlier trial to be admissible, scheduling the hearing for November 30, 2021. The company trusts that by bringing forward the hearing date, the dispute may be settled on appeal within a reasonable time-frame.

Vodafone (formerly TELETU)

By writ of summons of February 2012, TIM summonsed the operator TeleTu (today incorporated into Vodafone) to the Court of Rome for having unduly impeded customers intending to return to TIM. The damages claim has been quantified for approximately 93 million euros. By judgment of December 2020, the Court ascertained that from July 2008 to October 2011, TeleTu pursued illegal competition pursuant to art. 2598 of the Italian Civil Code in connection with requests for migration to TIM, ordering it to compensate TIM for the amount of 1,378,000 euros plus interest and revaluation.

c) Commitments and guarantees

Personal guarantees provided, totaling 5,005 million euros, refer mainly to guarantee financing provided by TIM on behalf of Subsidiaries (including 3,260 million euros for Telecom Italia Capital, 1,424 million euros for Telecom Italia Finance, 72 million euros for Flash Fiber, 61 million euros for Telecom Italia Sparkle, 86 million euros for Olivetti and 57 million euros for Telenergia).

Significant purchase commitments outstanding at December 31, 2020 for long-term contracts forming part of TIM S.p.A.'s business operations, totaling around 2.5 billion euros, mainly related to the commitments undertaken by the Company for supplies related to the operation of the telecommunications network.

The guarantees provided by third parties to Group companies, amounting to 4,157 million euros, refer for 3,401 million euros to the related to guarantees provided by banks and other financial institutions as a guarantee of the proper performance of contractual obligations and for 756 million euros to insurance guarantees. In particular, the following should be noted:

- The Company issued six guarantees to the Ministry of Economic Development for a total of 1,922 million euros for the deferment of the payment of the amount due for the acquisition of the user rights to frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services. At December 31, 2020, the remaining guarantee was 1,794 million euros;
- The insurance guarantees, which totaled 756 million euros, mainly refer to guarantee financing by TIM in applying legal provisions for contracts of Public Administrations and similar bodies;
- TIM has given guarantees to INPS to support the application by some Group companies of Article 4, paragraph 1, of Law 92 of June 28, 2012, to incentivize the departure of workers meeting the necessary requirements; the total amount of guarantees is 72 million euros (of which 29 million euros for Telecom Italia Sparkle and 19 million euros for Olivetti).

Finally, in May 2018, TIM issued a surety to the Prime Minister's Office for 74.3 million euros to secure an appeal to the Lazio Administration Court for a provisional stay of the administrative fine levied on TIM following the preliminary investigation connected with the penalty proceeding initiated under Article 2 of Decree Law 21 of 3/15/2012 (the "Golden Power" law).

NOTE 25

REVENUES

These decreased by 1,087 million euros compared to 2019. The breakdown is as follows:

(million euros)	2020	2019
Equipment sales	1,271	1,440
Services	10,759	11,697
Total	12,030	13,137

Revenues from services are mainly represented by voice and data services on fixed and mobile networks for retail customers (8,141 million euros) and for other wholesale operators (2,045 million euros).

Revenues are presented gross of amounts due to other TLC operators (591 million euros), which are included in "Costs of services".

In 2020, adjustments were booked of non-recurring revenues for 38 million euros, connected with the commercial initiatives of TIM S.p.A. to support customers in dealing with the COVID-19 emergencies. Further details are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

NOTE 26

OTHER OPERATING INCOME

This fell by 9 million euros and the figure breaks down as follows:

(million euros)	2020	2019
Late payment fees charged for telephone services	40	48
Recovery of employee benefits expenses, purchases and services rendered	16	37
Capital and operating grants	31	27
Damages, penalties and recoveries connected with litigation	17	17
Estimate revisions and other adjustments	59	36
Other	26	33
Total	189	198

NOTE 27

PURCHASE OF RAW MATERIALS AND SERVICES

These increased by 15 million euros compared to 2019. The figure breaks down as follows:

(million euros)	2020	2019
Acquisition of raw materials and merchandise	(a) 926	1,076
Costs of services		
Revenues due to other TLC operators	591	593
Costs for telecommunications network access services	101	100
Commissions, sales commissions and other selling expenses	827	792
Advertising and promotion expenses	130	134
Professional and consulting services	114	86
Utilities	353	381
Maintenance	277	251
Outsourcing costs for other services	388	428
Mailing and delivery expenses for telephone bills, directories and other materials to customers	33	38
Distribution and logistics	7	6
Travel and lodging costs	6	13
Insurance	33	30
Other service expenses	519	410
	(b) 3,379	3,262
Lease and rental costs		
Rent and leases	5	4
Other lease and rental costs	301	254
	(c) 306	258
Total	(a+b+c) 4,611	4,596

In application of IFRS 16, leased asset costs mainly included lease fees for contracts relating to intangible assets (301 million euros, mainly for software licenses and royalties).

In 2020, non-recurring operating costs were incurred in reference to procurement and various costs for approximately 15 million euros, which became necessary for the management of the COVID-19 health emergency, mainly due to the acquisition of personal protection equipment and thermoscanners, and costs for environmental hygiene services. Further details are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

NOTE 28

EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses decreased by 299 million euros compared to 2019. The figure breaks down as follows:

(million euros)	2020	2019
Ordinary employee expenses		
Wages and salaries	1,496	1,576
Social security expenses	556	590
Employee severance indemnities	(1)	(7)
Other employee benefits	106	87
(a)	2,157	2,246
Costs and provisions for temp work	(b)	—
Miscellaneous expenses for personnel and other labor-related services		
Charges for termination benefit incentives	—	7
Corporate restructuring expenses	35	236
Other	1	3
(c)	36	246
Total	(a+b+c) 2,193	2,492

"Ordinary employee expenses" decreased by 89 million euros, mainly due to the decrease in the average salaried workforce equal to a total of -2,191 employees on average. Following the mergers of TN Fiber and HR Services in TIM S.p.A., which took place respectively on September 30, 2020 and December 31, 2020, an average total of 340 employees were acquired.

"Corporate restructuring expenses" amounted to 35 million euros (236 million euros in 2019) and are mainly connected with the effective exits recorded in TIM S.p.A. in 2020 (also through application of Article 4 of Law no. 92 of June 28, 2012, as defined by the Trade Union Agreement of February 26, 2019 and the Trade Union Agreement signed on June 4, 2020). Expenses totaling 236 million euros were recognized in 2019.

In 2020, non-recurring costs were incurred for approximately 7 million euros, made necessary to address the COVID-19 health emergency. Further details are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

The average salaried workforce stood at 36,621 employees at December 31, 2020 (38,473 at December 31, 2019). A breakdown by category is as follows:

(number of units)	2020	2019
Executives	458	426
Middle Management	3,320	3,374
White collars	32,843	34,673
Blue collars	-	-
Employees on payroll	36,621	38,473
Employees with temp work contracts	-	-
Total headcount	36,621	38,473

The headcount at December 31, 2020 amounted to 38,516 employees, a decrease of 1,721 compared to December 31, 2019 (40,237).

NOTE 29

OTHER OPERATING EXPENSES

These decreased by 456 million euros compared to 2019. The figure breaks down as follows:

(million euros)	2020	2019
Write-downs and expenses in connection with credit management	328	402
Provision charges	1	414
TLC operating fees and charges	42	43
Indirect duties and taxes	53	63
Penalties, settlement compensation and administrative fines	120	64
Subscription dues and fees, donations, scholarships and traineeships	10	10
Other	51	65
Total	605	1,061
<i>of which, included in the supplementary disclosure on financial instruments</i>	—	402

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

In 2020, non-recurring operating costs were incurred for a total of 46 million euros, mainly referring to provisions and expenses connected with credit management deriving from the deterioration of the macroeconomic context as a consequence of the COVID-19 pandemic (41 million euros). Further details are provided in the Note "Significant non-recurring events and transactions" of the Separate Financial Statements at December 31, 2020 of TIM S.p.A.

NOTE 30

CHANGE IN INVENTORIES

This item was negative by 11 million euros (negative at 107 million euros as at December 31, 2019), mainly due to the significant decrease in the year of both purchases as well as consumption, with reference to equipment and accessories for mobile telephony, in application of a more targeted commercial and procurement policy.

NOTE 31

INTERNALLY GENERATED ASSETS

Internally generated assets amounted to 381 million euros, down by 22 million euros on 2019.

This performance was attributable to lower capitalization relating to both tangible assets for the installation of access and carrier networks (-17 million euros) and to intangible assets for the development of software and innovative services and network solutions (-5 million euros). The lower capitalizations mainly follow a reduction in the number of hours worked (-7% on last year), with an impact of -25 million euros, only very slightly offset by the average increase in the hourly cost (+ 1% on 2019), with an impact of +3 million euros. The increase in the average hourly cost is due to an increase in the cost of labor (+4 million euros) partially offset by the zeroing of overhead costs (- 1 million euros), which have no longer been capitalized starting 2020.

Internally generated assets in 2020 consisted of:

- cost of labor of 376 million euros;
- other external costs of 5 million euros.

They refer for 201 million euros to the item "tangible assets", relating to the design, construction and testing of network installations, and for 180 million euros to the item "intangible assets with a finite useful life", mainly concerning assets of software development and development of network solutions, applications and innovative services.

NOTE 32

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 137 million euros compared to 2019 and was broken down as follows:

(million euros)	2020	2019
Amortization of intangible assets with a finite useful life		
Industrial patents and intellectual property rights	910	842
Concessions, licenses, trademarks and similar rights	379	380
Other intangible assets	1	—
(a)	1,290	1,222
Depreciation of tangible assets owned		
Buildings (civil and industrial)	33	36
Plant and equipment	1,623	1,689
Manufacturing and distribution equipment	11	12
Other	83	81
(b)	1,750	1,818
Depreciation of rights of use assets		
Property	402	567
Plant and equipment	111	80
Other	29	32
(c)	542	679
Total	(a+b+c) 3,582	3,719

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

NOTE 33

GAINS/(LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

This item is broken down below:

(million euros)	2020	2019
Gains on disposals of non-current assets		
Gains on the retirement/disposal of intangible, tangible and user rights on rental	30	2
(a)	30	2
Losses on disposals of non-current assets		
Losses on the retirement/disposal of intangible, tangible and user rights on rental	44	43
(b)	44	43
Total	(a-b) (14)	(41)

NOTE 34

IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

The item shows losses of 8 million euros (none in 2019), mainly following the provisions made for inventory differences for plant warehouse materials held at external company sites.

NOTE 35

INCOME/(EXPENSES) FROM INVESTMENTS

Details are as follows:

(million euros)	2020	2019
Dividends	331	141
Net gains on disposals of investments	227	35
Losses on disposals of investments	—	(26)
Impairment losses on financial assets	(7)	(28)
Sundry expenses from investments	—	(5)
Total	551	117
<i>of which, included in the supplementary disclosure on financial instruments</i>	<i>—</i>	<i>1</i>

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

In particular, we report:

- dividends mainly referred to the subsidiary TI Finance (75 million euros) and the associate INWIT S.p.A. (256 million euros). In 2019, dividends mainly referred to the then subsidiary INWIT S.p.A. (76 million euros) and the subsidiaries TI Finance (53 million euros) and Persidera (10 million euros);
- net capital gains - of 227 million euros - are mainly related to the 2020 sales of INWIT shares; more specifically, they refer:
 - 51 million euros to the transfer made on April 23, 2020, of a package of shares equal to 4.3% of the share capital of INWIT, through an accelerated book-building procedure reserved for institutional investors;
 - 144 million euros to the sale made on October 02, 2020 to Daphne 3 S.p.A. of 142,090,396 INWIT shares, representing 14.80% of INWIT's share capital;
 - 13 million euros to the transfer by TIM to an SPV managed and assisted by Canson Capital Partners (Guernsey) Limited of an investment in INWIT equal to approximately 1.2% of the related share capital (corresponding to 11,522,400 INWIT shares), again on October 2, 2020;
 - 19 million euros to the transfer by TIM to the same SPV of an additional share in INWIT equal to 1.8% of its share capital (corresponding to 17,030,535 shares) following the December 2020 exercise of the relevant purchase option.
- impairment losses referred to the impairment of investment in the subsidiary Olivetti. In 2019, impairment losses mainly referred to the write-down of the investments held in the subsidiary Olivetti (18 million euros), Tim Tank (3 million euros), Timvision (2 million euros), Tn Fiber (1 million euros), as well as in the associate Tiglio I (4 million euros).

NOTE 36

FINANCE INCOME AND EXPENSES

Finance income (expenses) show a net expense of 961 million euros, which breaks down as follows:

(million euros)	2020	2019
Finance income	1,012	1,195
Finance expenses	1,973	2,462
Total net financial income (expenses)	(961)	(1,267)

The items break down as follows:

(million euros)	2020	2019
Interest expenses and miscellaneous finance expenses		
Interest expenses and other costs relating to bonds	(563)	(608)
Interest expenses relating to subsidiaries	(166)	(269)
Interest expenses relating to associates	—	—
Interest expenses to banks	(47)	(54)
Finance expenses on liabilities for finance leasing	(145)	(163)
Interest expenses to others	(1)	—
	(922)	(1,094)
Commissions	(54)	(50)
Miscellaneous finance expenses (*)	(74)	(135)
	—	(185)
Interest income and other finance income:		
Interest income	30	39
Interest income from subsidiaries	3	1
Interest income from associates	—	—
Income from financial receivables, recorded in Non-current assets	2	—
Income from financial receivables from subsidiaries, recorded in Non-current assets	8	7
Income from financial receivables from associates, recorded in Non-current assets	—	—
Income from securities other than investments, recorded in Non-current assets	—	—
Income from securities other than investments, recorded in Current assets (*)	4	13
Miscellaneous finance income	7	17
	54	77
Total net finance interest/(expenses)	(a) (996)	(1,202)
Other components of financial income and expense:		
Net exchange gains and losses	(2)	(1)
Net result from derivatives	(48)	(30)
Net fair value adjustments to fair value hedge derivatives and underlyings	2	10
Net fair value adjustments to non-hedging derivatives	83	(44)
Total other components of financial income and expense	(b) 35	(65)
Total net financial income (expenses)	(c)=(a+b) (961)	(1,267)
<i>of which, included in the supplementary disclosure on financial instruments</i>	<i>(704)</i>	<i>(1,015)</i>

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

(*) of which IFRS 9 impact:

(million euros)	2020	2019
Income from negative adjustment of IFRS 9 impairment reserve on financial assets through FVTOCI	—	7
Expenses from positive adjustment of IFRS 9 impairment reserve on financial assets through FVTOCI	—	—
Reversal of IFRS 9 impairment reserve on financial assets through FVTOCI	—	—
Impairment losses on financial assets other than investments	—	—

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

(million euros)	2020	2019
Exchange gains	8	31
Exchange losses	(10)	(32)
Net exchange gains and losses	(2)	(1)
Income from fair value hedge derivatives	47	43
Charges from fair value hedge derivatives	—	—
Net result from fair value hedge derivatives (a)	47	43
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	118	180
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	(213)	(253)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component) (b)	(95)	(73)
Income from non-hedging derivatives	285	364
Charges from non-hedging derivatives	(285)	(364)
Net result from non-hedging derivatives (c)	—	—
Net result from derivatives (a+b+c)	(48)	(30)
Positive fair value adjustments relating to fair value hedge derivatives	45	100
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives	(44)	(91)
Net fair value adjustments (d)	1	9
Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives	6	1
Negative fair value adjustments relating to fair value hedge derivatives	(5)	—
Net fair value adjustments (e)	1	1
Net fair value adjustments to fair value hedge derivatives and (d+e)	2	10
Positive fair value to non-hedging derivatives (f)	449	399
Negative fair value adjustments to non-hedging derivatives (g)	(366)	(443)
Net fair value adjustments to non-hedging derivatives (f+g)	83	(44)

NOTE 37

RELATED-PARTY TRANSACTIONS

The following tables show the balances relating to transactions with related parties and the impact of those amounts on the separate income statement, statement of financial position and statement of cash flows of TIM S.p.A..

Related-party transactions, when not dictated by specific laws, were conducted at arm's length. They were performed in compliance with the internal procedure, which sets forth rules designed to ensure the transparency and fairness of the transactions in accordance with Consob Regulation 17221/2010. The current procedure is available on the website gruppotim.it, under the Group section/Governance System channel.

For an analysis of transactions with subsidiaries and associates of TIM S.p.A. please refer to the Note "Investments".

The effects of related party transactions on the line items of the separate income statements for 2020 and 2019 are as follows:

SEPARATE INCOME STATEMENT LINE ITEMS 2020

(million euros)	Total	Related Parties					Total related parties	% of financial statement item
		Subsidiaries	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers		
	(a)						(b)	(b/a)
Revenues	12,030	248	60	3	—	—	311	2.6
Other income	189	7	1	—	—	—	8	4.2
Acquisition of goods and services	4,611	688	249	78	—	—	1,015	22.0
Employee benefits expenses	2,193	—	—	—	64	14	78	3.6
Other operating expenses	605	—	2	—	—	—	2	0.3
Depreciation and amortization	3,582	103	39	—	—	—	142	4.0
Gains/losses on disposals of non-current assets	(14)	3	—	—	—	—	3	(21.4)
Income (expenses) from investments	551	75	256	—	—	—	331	60.1
Finance income	1,012	320	—	—	—	—	320	31.6
Finance expenses	1,973	559	15	—	—	—	574	29.1

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

SEPARATE INCOME STATEMENT LINE ITEMS 2019

(million euros)	Total	Related Parties					Total related parties	% of financial statement item
		Subsidiaries	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers		
	(a)						(b)	(b/a)
Revenues	13,137	330	2	2	—	—	334	2.5
Other income	198	11	—	—	—	—	11	5.6
Acquisition of goods and services	4,596	828	5	80	—	—	913	19.9
Employee benefits expenses	2,492	—	—	—	66	18	84	3.4
Other operating expenses	1,061	6	—	—	—	—	6	0.6
Depreciation and amortization	3,719	274	—	—	—	—	274	7.4
Gains/losses on disposals of non-current assets	(41)	—	—	—	—	—	—	—
Income (expenses) from investments	117	139	—	—	—	—	139	—
Finance income	1,195	171	—	—	—	—	171	14.3
Finance expenses	2,462	1,005	—	—	—	—	1,005	40.8

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

The effects of related party transactions on the line items of the statements of financial position as at December 31, 2020 and December 31, 2019 are as follows:

STATEMENT OF FINANCIAL POSITION LINE ITEMS AT December 31, 2020

(million euros)	Total	Related Parties				Total related parties	% of financial statement item
		Subsidiaries	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds		
	(a)					(b)	(b/a)
NET FINANCIAL DEBT							
Non-current financial assets	2,507	658	—	—	—	658	26.2
Securities other than investments (current assets)	—	—	—	—	—	—	—
Financial receivables and other current financial assets	154	13	—	—	—	13	8.4
Cash and cash equivalents	1,766	92	—	—	—	92	5.2
Current financial assets	1,920	105	—	—	—	105	5.5
Non-current financial liabilities	27,946	6,162	313	—	—	6,475	23.2
<i>of which: Non-current financial liabilities for lease contracts</i>	<i>3,506</i>	<i>497</i>	<i>313</i>	<i>—</i>	<i>—</i>	<i>810</i>	23.1
Current financial liabilities	3,805	307	50	—	—	357	9.4
<i>of which: Current financial liabilities for lease contracts</i>	<i>463</i>	<i>14</i>	<i>50</i>	<i>—</i>	<i>—</i>	<i>64</i>	13.8
Total net financial debt	27,324	5,706	363	—	—	6,069	22.2
OTHER STATEMENT OF FINANCIAL POSITION LINE ITEMS							
Rights of use assets	4,096	541	347	—	—	888	21.7
Miscellaneous receivables and other non-current assets	1,733	131	—	—	—	131	7.6
Trade and miscellaneous receivables and other current assets	3,464	239	39	3	—	281	8.1
Miscellaneous payables and other non-current liabilities	3,477	159	2	—	—	161	4.6
Trade and miscellaneous payables and other current liabilities	5,610	341	101	36	20	498	8.9

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

STATEMENT OF FINANCIAL POSITION LINE ITEMS AT December 31, 2019

(million euros)	Total	Subsidiaries	Associates, subsidiaries of associates and joint ventures	Related Parties		Total related parties	% of financial statement item
				Other related parties (*)	Pension funds		
	(a)					(b)	(b/a)
NET FINANCIAL DEBT							
Non-current financial assets	2,349	641	—	—	—	641	27.3
Securities other than investments (current assets)	—	—	—	—	—	—	
Financial receivables and other current financial assets	176	17	—	—	—	17	9.7
Cash and cash equivalents	829	1	—	—	—	1	0.1
Current financial assets	1,005	18	—	—	—	18	1.8
Non-current financial liabilities	30,184	6,753	—	1	—	6,754	22.4
<i>of which: Non-current financial liabilities for lease contracts</i>	<i>4,002</i>	<i>997</i>	<i>—</i>	<i>1</i>	<i>—</i>	<i>998</i>	<i>24.9</i>
Current financial liabilities	4,453	1,600	—	—	—	1,600	35.9
<i>of which: Current financial liabilities for lease contracts</i>	<i>666</i>	<i>270</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>270</i>	<i>40.5</i>
Total net financial debt	31,283	7,694	—	1	—	7,695	24.6
OTHER STATEMENT OF FINANCIAL POSITION LINE ITEMS							
Rights of use assets	4,906	1,293	—	1	—	1,294	26.4
Miscellaneous receivables and other non-current assets	1,746	139	—	—	—	139	8.0
Trade and miscellaneous receivables and other current assets	3,731	327	2	2	—	331	8.9
Miscellaneous payables and other non-current liabilities	2,973	141	—	—	—	141	4.7
Trade and miscellaneous payables and other current liabilities	5,843	326	4	31	21	382	6.5

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

The effects of related party transactions on the significant line items of the statements of cash flows for 2020 and 2019 are as follows:

STATEMENT OF CASH FLOWS LINE ITEMS 2020

(million euros)	Total	Related Parties				Total related parties	% of financial statement item
		Subsidiaries	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds		
	(a)					(b)	(b/a)
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis	3,374	188	378	—	—	566	16.8
Dividends paid	317	1		36		37	11.8

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

STATEMENT OF CASH FLOWS LINE ITEMS 2019

(million euros)	Total	Related Parties				Total related parties	% of financial statement item
		Subsidiaries	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds		
	(a)					(b)	(b/a)
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis	3,398	313	2	—	—	315	9.3

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

Transactions with subsidiaries

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	Type of contract
Revenues			
TIM Retail	60	75	Supply of products for sale to the public, voice and data transmission services and ICT services for company use, property leasing
Flash Fiber S.r.l.	104	118	Construction of the horizontal secondary network in FTTH mode following the joint investment arrangement of July 28, 2016 between TIM and Fastweb, voice services, data transmission equipment and services, administrative
TIM S.A.	24	29	Roaming services, license support and provision as part of network operations, information technology, marketing & sales, Royalties Trademark License Agreement and TIM Brand
INWIT S.p.A.	12	39	Voice and data transmission services for company use, IRU transfer of Dark Optic Fiber and Local Infrastructure, Easy IP ADSL service, small cell design and construction services, property leasing, sales of mobile network TLC products, product rental, administrative outsourcing (for the portion relative to the first three months of 2020)
Olivetti S.p.A.	(9)	6	Telephone services, MPLS and fiber services for the national data network, product sales, property leasing, project development, administrative outsourcing and margins for the end-to-end solutions offered by Olivetti on Jasper platform and intermediated by TIM, under the scope of the contract for the development, management and marketing of machine-to-machine and Internet of Things services
Telecom Italia S.Marino S.p.A.	2	2	Connection and telecommunications services, in particular for the sale of data (bitstream) services, dark fiber contract, local loop unbundling
Telecom Italia Sparkle S.p.A.	47	47	Voice and data transmission services, services relating to the interconnection between Telecom Italia Sparkle and TIM communications networks with particular reference to accesses and international traffic, sale of IRU dark fiber, property leasing, administrative outsourcing
Telecom Italia Trust Technologies S.r.l.	2	2	Voice outsourced services, fixed network products, administrative outsourcing
Telecontact S.p.A.	3	4	Lease of properties and facility management services, supply of fixed and mobile network and IP connectivity telecommunications products and services, administrative outsourcing
Telefonia Mobile Sammarinese S.p.A.	1	1	Mobile telephone and telecommunications product sales
Telenergia S.p.A.	1	1	Outsourcing for company business, administrative outsourcing
Other minor items	1	6	The amount shown in 2019 included, in addition to the minor companies, HR Services, which in 2020 was merged into TIM S.p.A., as well as Persidera, which was sold late 2019
Total revenues	248	330	

(million euros)	2020	2019	Type of contract
Other income	7	11	Recovery of seconded Employee benefits expenses, refunds of costs for services, compensation for board positions, other income
Acquisition of goods and			
TIM Retail	92	113	Supply of services for acquisition of new customers, information activities and post-sales support for TIM customers, activities for the promotion of TIM's image and distinctive brands through point-of-sale windows
Flash Fiber S.r.l.	1	-	Use of the network in GPON mode for the supply of the FTTH service
INWIT S.p.A.	11	64	Supply of services for BTS sites, monitoring and security services, management and maintenance services (for the portion relative to the first three months of 2020)
Telecom Italia Trust Technologies S.r.l.	20	17	Certification Authority service for TIM and within the TIM customer offering, archiving service according to certified email rules for the TIM S.p.A.'s Certified Electronic Mail box, provision of digital identity services
Olivetti S.p.A.	70	43	Provision of Cloud Printing service for software, maintenance and supply of customized services as part of TIM offerings to end customers, purchase of IT services, ICT product installation costs, after-sales support, as part of TIM offerings to end customers, processing services, processing services, support, dispatching of information flows related to debt recovery and archiving of documentation according to the law, Prepaid and Subscription contract management services for fixed-line and mobile consumer customers for electronic and paper storage respectively, consumer contract management services in support of the TIM CDA line, back office services as part of the "Postino Intelligente" (smart postman) project aimed at marketing the mobile offering remotely, evolutionary developments of projects and platforms, purchase of software platform licenses, software developments, award of cloud enabling services and cloud computing services, security, the development of on-line services and portals and applicative cooperation for the Public Administrations
Telecom Italia Sparkle S.p.A.	146	156	Portion to be paid for telecommunications services and interconnection costs, telephone services, data transmission and international line lease
Telecontact S.p.A.	87	83	Customer Care services for TIM customers and for the Public Administration under the Consip Agreement, back-office services relating to the billing services for customers of the paid service provided by TIM technicians, call center and back-office services for the management of the information of the technical and commercial front end of public telephony
Telenergia S.p.A.	255	304	Power services
Telsy S.p.A.	5	3	Provision of equipment and licenses, as part of TIM offerings to end customers, and ICT solutions security services for TIM, maintenance services and licenses
Other minor companies	1	45	The amount shown in 2019 included, in addition to the minor companies, HR Services and Tim Vision, which in 2020 were merged into TIM S.p.A., as well as Persidera, which was sold late 2019
Total acquisition of materials and services	688	828	

(million euros)	2020	2019	Type of contract
Employee benefits expenses	—	—	
Other operating expenses	—	6	Contractual penalties, other expenses
Amortization of right-of-use assets			
Flash Fiber S.r.l.	39	18	Amortization of rights of use related to the recognition of greater non-current assets amortized over the residual contractual term
INWIT S.p.A.	64	255	Amortization of rights of use related to the recognition of greater non-current assets amortized over the residual contractual term (for the portion relative to the first three months of 2020)
Other minor items	—	1	The amount shown in 2019 included RN Fiber, which in 2020 was merged into TIM S.p.A.
Total amortization of rights of use assets	103	274	
Gains/(losses) on disposals of non-current assets	3	—	Capital gains from the disposal of rights of use over third party assets following the derecognition of such rights as a result of the new March 2020 Master Service Agreement
Income (expenses) from investments			
Telecom Italia Finance S.A.	75	53	Dividends
Other minor items	—	86	The amount indicated in 2019 includes the company Persidera, sold late 2019, and INWIT S.p.A., which since 2020 has been considered an associate
Total income (expenses) from investments	75	139	
Finance income			
Flash Fiber S.r.l.	10	7	Income from receivables and financial commissions
Olivetti S.p.A.	—	1	Interest income on financial receivables, financial commissions receivable
Telecom Italia Capital S.A.	273	124	Income from securities, income from derivatives, financial commissions receivable, other financial income
Telecom Italia Finance S.A.	36	38	Income from securities, income from derivatives, and financial commissions receivable
Telenergia S.p.A.	1	1	Interest income on financial receivables, financial commissions receivable
Total finance income	320	171	
Finance expenses			
Flash Fiber S.r.l.	—	4	Finance expenses for interest due to the recognition of higher financial liabilities connected to the rights of use assets
INWIT S.p.A.	4	17	Finance expenses for interest connected with rights of use consequent to the recognition of higher financial liabilities (for the portion relative to the first three months of 2020)
Telecom Italia Capital S.A.	429	845	Interest on financial payables, charges on derivatives, miscellaneous finance expenses
Telecom Italia Finance S.A.	126	139	Interest on financial payables, charges on derivatives, financial commissions payable, other finance expenses
Total finance expenses	559	1,005	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	Type of contract
Net financial debt			
Non-current financial assets			
Flash Fiber S.r.l.	500	491	Loan
Telecom Italia Finance S.A.	142	150	Derivative assets
Telecom Italia Capital S.A.	16	—	Derivative assets
Total non-current financial assets	658	641	
Securities other than investments (current assets)	—	—	
Financial receivables and other current financial assets			
Flash Fiber S.r.l.	1	1	Short-term financial receivables
Telecom Italia Capital S.A.	7	7	Derivative assets
Telecom Italia Finance S.A.	2	3	Derivative assets
Telecom Italia Sparkle S.p.A.	3	—	Financial receivables for the sale of network infrastructure in IRU
Other minor items	—	6	The amount shown in 2019 included, in addition to the minor companies, TIM Vision, which in 2020 was merged into TIM S.p.A..
Total financial receivables and other current financial assets	13	17	
Cash and cash equivalents			Treasury current accounts
Flash Fiber S.r.l.	73	—	
Telenergia S.p.A.	19	1	
Total Cash and cash equivalents	92	1	
Non-current financial liabilities			
Flash Fiber S.r.l.	495	388	Non-current financial liabilities related to the recognition of rights of use for lease liabilities
Telecom Italia Capital S.A.	4,217	4,335	Hedging derivatives and financial payables
Telecom Italia Finance S.A.	1,448	1,422	Hedging derivatives and financial payables
Other minor companies	2	608	Non-current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A., considered an associate since 2020
Total Non-current financial liabilities	6,162	6,753	

	12.31.2020	12.31.2019	Type of contract
(million euros)			
Current financial liabilities			
Telecom Italia Trust Technologies S.r.l.	13	10	Payables for current accounts
Olivetti S.p.A.	23	1	Payables for current accounts
Flash Fiber S.r.l.	6	18	Current financial liabilities related to the recognition of rights of use arising from lease agreement liabilities, payables for current accounts
Telecom Italia Capital S.A.	51	56	Financial payables, derivatives
Telecom Italia Finance S.A.	42	991	Financial payables, payables for current accounts, derivatives
Telecom Italia Sparkle S.p.A.	118	177	Payables for current accounts
Telecontact S.p.A.	45	34	Payables for current accounts
Telsy S.p.A.	6	3	Payables for current accounts
Other minor items	3	310	The amount indicated in 2019 also includes, in addition to minor companies, HR Services, TIM Vision and TN Fiber, which merged into TIM S.p.A. in 2020, as well as non-current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A., considered an associate since 2020
Total Current financial liabilities	307	1,600	

	12.31.2020	12.31.2019	Type of contract
(million euros)			
Other statement of financial position line items			
Right of use on leased assets			
Flash Fiber S.r.l.	532	422	Rights of use related to the recognition of greater non-current assets amortized over the residual contractual term
Telecom Italia Sparkle S.p.A.	7	—	Rights of use for the supply of a pairing of dark fiber on the undersea cable system Bluemed and related research and design activities
Other Minor	2	871	The amount indicated in 2019 also includes, in addition to minor companies, HR Services, TIM Vision and TN Fiber, merged into TIM S.p.A. in 2020, as well as rights of use for lease liabilities with INWIT S.p.A., considered an associate since 2020
Total right of use on leased assets	541	1,293	
Miscellaneous receivables and other non-current assets	131	139	Deferred contractual and other deferred costs for transactions with Telecontact (customer care services) and TIM Retail (new activations), receivables for tax consolidation

(million euros)	12.31.2020	12.31.2019	Type of contract
Trade and miscellaneous receivables and other current assets			
TIM Retail	49	58	Supply of products for sale to the public, voice and data transmission services and ICT services for company use, property leasing, receivables for tax consolidation
Flash Fiber S.r.l.	102	121	Construction of the horizontal secondary network in FTTH mode following the joint investment arrangement of July 28, 2016 between TIM and Fastweb, voice services, data transmission equipment and services, administrative outsourcing
TIM S.A.	13	18	Roaming services, license support and provision as part of network operations, information technology, marketing & sales, Royalties Trademark License Agreement and TIM Brand
Olivetti S.p.A.	8	14	Telephone services, MPLS and fiber services for the national data network, product sales, property leasing, project development, administrative outsourcing
Telecom Italia Trust Technologies S.r.l.	3	2	Outsourced voice services, fixed network products, administrative outsourcing, receivables for tax consolidation
Telecom Italia S.Marino S.p.A.	1	1	Connection and telecommunications services, in particular for the sale of data (bitstream) services, dark fiber contract, local loop unbundling
Telecom Italia Sparkle S.p.A.	18	24	Voice and data transmission services, services relating to the interconnection between Telecom Italia Sparkle and TIM communications networks with particular reference to accesses and international traffic, sale of IRU dark fiber, property leasing, administrative outsourcing
Telecontact S.p.A.	33	30	Lease of properties and facility management services, supply of fixed and mobile network and IP connectivity telecommunications products and services, administrative outsourcing, deferred contract costs, receivables for tax consolidation
Telenergia S.p.A.	8	7	Outsourcing for company business, administrative outsourcing, receivables for tax consolidation
Telsy S.p.A.	2	1	Deferred costs for the provision of equipment and licenses, as part of TIM offerings to end customers, and ICT solutions security services for TIM, maintenance services and licenses
Other minor companies	2	51	The amount indicated in 2019 also includes, in addition to minor companies, HR Services, TIM Vision and TN Fiber, which merged into TIM S.p.A. in 2020 and INWIT S.p.A., considered an associate since 2020
Total trade and miscellaneous receivables and other current assets	239	327	

(million euros)	12.31.2020	12.31.2019	Type of contract
Miscellaneous payables and other non-current liabilities			
Flash Fiber S.r.l.	149	120	Payables for tax consolidation, deferred revenues deriving from contracts for the sale of transmission capacity
Olivetti S.p.A.	1	3	Payables for tax consolidation
Telecom Italia S.Marino S.p.A.	1	1	Deferred revenues for connection and telecommunications services contracts
Telecom Italia Sparkle S.p.A.	7	14	Deferred revenues from interconnection contracts, payables for tax consolidation
Telenergia S.p.A.	1	—	Payables for tax consolidation
Other minor items	—	3	The amount shown in 2019 included, in addition to the minor companies, TN Fiber, which in 2020 was merged into TIM S.p.A., as well as INWIT S.p.A., considered an associate since 2020
Total miscellaneous payables and other non-current liabilities	159	141	
Trade and miscellaneous payables and other current liabilities			
TIM Retail	22	27	Supply of services for acquisition of new customers, information activities and post-sales support for TIM customers, activities for the promotion of image and distinctive brands TIM through point-of-sale windows, payables for tax consolidation
Flash Fiber S.r.l.	62	64	Use of network in GPON mode for the supply of the FTTH service, deferred revenues, payables for tax consolidation
Telecom Italia Trust Technologies S.r.l.	11	10	Certification Authority service for TIM and within the TIM customer offering, archiving service according to certified email rules for the TIM S.p.A.'s Certified Electronic Mail box, provision of digital identity services
Olivetti S.p.A.	46	37	Provision of Cloud Printing service for software, maintenance and supply of customized services as part of TIM offerings to end customers, purchase of IT services, ICT product installation costs, after-sales support, as part of TIM offerings to end customers, processing services, processing services, support, dispatching of information flows related to debt recovery and archiving of documentation according to the law, Prepaid and Subscription contract management services for fixed-line and mobile consumer customers for electronic and paper storage respectively, consumer contract management services in support of the TIM CDA line, back office services as part of the "Postino Intelligente" (smart postman) project aimed at marketing the mobile offering remotely, evolutionary developments of projects and platforms, purchase of software platform licenses, software developments, award of cloud enabling services and cloud computing services, security, the development of on-line services and portals and applicative cooperation for the Public Administrations, payables for tax consolidation
Telecom Italia Sparkle S.p.A.	97	57	Portion to be paid for telecommunications services and interconnection costs, telephone services, data transmission and international line lease, payables for tax consolidation
Telecontact S.p.A.	13	19	Customer Care services for TIM customers and for the Public Administration under the Consip Agreement, back-office services relating to the billing services for customers of the paid service provided by TIM technicians, call center and back office services for the management of the information of technical and commercial front end of the public telephony, payables for tax consolidation

(million euros)	12.31.2020	12.31.2019	Type of contract
Telenergia S.p.A.	78	51	Power services
Telsy S.p.A.	9	5	Provision of equipment, as part of TIM offerings to end customers, and ICT solutions security services for TIM, maintenance services and licenses
Other minor companies	3	56	The amount indicated in 2019 also includes, in addition to minor companies, HR Services, TIM Vision and TN Fiber, which merged into TIM S.p.A. in 2020 and INWIT S.p.A., considered an associate since 2020
Total trade and miscellaneous payables and other current	341	326	

STATEMENT OF CASH FLOWS LINE ITEMS

STATEMENT OF CASH FLOWS LINE ITEMS (million euros)	2020	2019	Type of contract
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis			
Flash Fiber S.r.l.	149	231	Higher value of rights of use recognized as a result of new contracts or changes in existing lease contracts
Olivetti S.p.A.	11	7	Purchase of products for resale and lease as part of offerings for end customers, development and implementation on platforms
Telecom Italia Sparkle S.p.A.	7	—	Rights of use for the supply of a pairing of dark fiber on the undersea cable system Bluemed and related research and design activities
Telecom Italia Trust Technologies S.r.l.	3	2	Digital Identity and Certification Authority
Telenergia S.p.A.	1	1	Connections for power supply of local NGAN cabinets
Telsy S.p.A.	11	3	Purchase of equipment, as part of TIM offerings to end customers, and ICT solutions security services for TIM
Other minor items	6	69	The amount shown in 2019 included TN Fiber, which in 2020 was merged into TIM S.p.A., as well as INWIT S.p.A., considered an associate since 2020
Total purchases of intangible, tangible and right of use assets on an accrual basis	188	313	
Dividends paid	1		Dividends paid to Telecom Italia Finance S.A.

Transactions with associates, subsidiaries of associates and joint ventures

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	Type of contract
Revenues			
INWIT S.p.A.	59	—	Voice and data transmission services for company use, Desktop Management ICT services, IRU transfer of Dark Optic Fiber and Local Infrastructure, Easy IP ADSL service, small cell design and construction services, property leasing, site maintenance and administrative outsourcing (for the period
Nordcom S.p.A.	1	1	Fixed and mobile voice services, equipment, data network connections and outsourcing
Other minor items	—	1	The amount shown in 2019 included, in addition to the minor companies, Asscom, which was sold in June 2020
Total revenues	60	2	
Other proceeds	1	—	
Acquisition of goods and			
INWIT S.p.A.	242	—	Supply of services for BTS sites, such as the provision of passive infrastructure and power supply systems, monitoring and security services (alarms), management and maintenance services (MSA) (for the period April-December
W.A.Y. S.r.l.	6	4	Supply, installation and technical support services for geolocation equipment provided as part of offers to TIM customers, software developments
Other minor items	1	1	
Total Acquisition of goods and services	249	5	
Other operating expenses	2	—	Penalties for breach of contract on maintenance management services to INWIT S.p.A. (for the period April-December 2020)
Amortization of right-of-use assets	39	—	Amortization of rights of use related to the recognition of greater non-current assets amortized over the residual contractual term, towards INWIT S.p.A. (for the period April-December 2020)
Income/(expenses) from investments	256	—	Dividends to INWIT S.p.A.
Finance income	—	—	
Finance expenses	15	—	Finance expenses for interest related to financial liabilities for rights of use granted to INWIT S.p.A. (for the period April-December 2020)

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	Type of contract
Net financial debt			
Non-current financial liabilities	313	—	Non-current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A.
Current financial liabilities	50	—	Current financial liabilities related to the recognition of rights of use for lease liabilities with INWIT S.p.A.

(million euros)	12.31.2020	12.31.2019	Type of contract
Other statement of financial position line items			
Right of use on leased assets	347	—	Rights of use related to the recognition of greater non-current assets amortized over the residual contractual term, towards INWIT S.p.A.
Trade and miscellaneous receivables and other current assets			
INWIT S.p.A.	36	—	Voice and data transmission services for company use, IRU assignments of dark optic fiber and local infrastructure, Easy IP ADSL service, small cell design and production services, property leasing, sales of mobile network TLC products, product rental, receivables for tax consolidation
W.A.Y. S.r.l.	2	2	Deferred costs for the provision of customized platforms, application offers, fixed and mobile voice services
Other minor items	1	—	
Total trade and miscellaneous receivables and other current assets	39	2	
Miscellaneous payables and other non-current liabilities	2	—	Deferred contractual revenues from INWIT S.p.A.
Trade and miscellaneous payables and other current liabilities			
INWIT S.p.A.	98	—	Supply of services for BTS sites, monitoring and security services, management and maintenance services
Movenda S.p.A.	1	1	Supply and certification of SIM CARDS, software systems
W.A.Y. S.r.l.	2	2	Supply, installation and technical support services for geolocation equipment provided as part of offers to TIM customers, software developments
Other minor items	—	1	
Total trade and miscellaneous payables and other current liabilities	101	4	

STATEMENT OF CASH FLOWS LINE ITEMS

(million euros)	2020	2019	Type of contract
Purchase of intangible assets, tangible assets and right of use assets on an accrual basis			
INWIT S.p.A.	376	—	Higher value of rights of use as a result of new contracts or changes in existing lease contracts (for the period April-December 2020)
Movenda S.p.A.	1	1	Supply and development of system software
Other minor items	1	1	
Total purchases of intangible, tangible and right of use assets on an accrual basis	378	2	

TIM S.p.A. has issued guarantees on behalf of subsidiaries, associates and joint ventures for a total of 5,001 million euros, net of back-to-back guarantees received (5,288 million euros at December 31, 2019).

In particular, the following is noted: 3,260 million euros relating to Telecom Italia Capital S.A. (3,561 million euros at December 31, 2011); 1,424 million euros relating to Telecom Italia Finance S.A. (1,382 million euros at December 31, 2019); 61 million euros for the Sparkle group (68 million euros at December 31, 2019); 86 million euros relating to Olivetti S.p.A. (106 million euros at December 31, 2019); 57 million euros in the favor of Telenergia S.p.A. (50 million euros at December 31, 2019).

Transactions with other related parties (both through directors, statutory auditors and key managers with strategic responsibilities within the company and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance)

Details are provided below of the transactions with:

- Vivendi Group and the companies of the group that it belongs to (as a result of the resolutions of the Board of Directors of TIM S.p.A. of May 3 and June 1, 2017);
- Related companies through Directors appointed on May 4, 2018;
- Related companies through Directors whose term of office ended on May 4, 2018.

SEPARATE INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	Type of contract
Revenues			
Other Directors or through	3	1	Fixed-line and mobile voice services and systems
Havas Group	—	1	Fixed-line and mobile voice services
Total revenues	3	2	
Acquisition of goods and			
Havas Group	74	76	Purchase of media space on behalf of TIM and, to a lesser extent, development and delivery of advertising campaigns
Vivendi group	4	4	Purchase of musical and television digital content (TIMmusic, TIMvision) and supply of D&P cloud-based games (TIMgames)
Total Acquisition of goods and services	78	80	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	Type of contract
Net financial debt			
Non-current financial liabilities	—	1	Non-current financial liabilities related to the recognition of rights of use for lease liabilities with Other Directors

(million euros)	12.31.2020	12.31.2019	Type of contract
Other statement of financial position line items			
Right of use on leased assets			
Other Directors or through	—	1	Rights of use resulting from the recognition of greater non-current assets amortized over the residual contractual term
Total right of use on leased assets	—	1	
Trade and miscellaneous receivables and other current assets			
Other Directors or through	3	1	Fixed-line and mobile voice services and systems
Other minor companies	—	1	
Total trade and miscellaneous receivables and other current assets	3	2	
Trade and miscellaneous payables and other current liabilities			
Havas Group	33	30	Purchase of media space on behalf of TIM and, to a lesser extent, development and delivery of advertising campaigns
Vivendi group	2	1	Purchase of musical and television digital content (TIMmusic, TIMvision) and supply of D&P cloud-based games (TIMgames).
Other minor companies	1	—	
Total trade and miscellaneous payables and other current liabilities	36	31	

STATEMENT OF CASH FLOWS LINE ITEMS

(million euros)	2020	2019	Type of contract
Dividends paid	36	—	Dividends paid to Vivendi Group

Transactions with pension funds

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(million euros)	2020	2019	Type of contract
Employee benefits expenses			Contributions to pension funds
Fontedir	8	6	
Telemaco	56	60	
Total Employee benefits	64	66	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(million euros)	12.31.2020	12.31.2019	Type of contract
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds
Fontedir	2	2	
Telemaco	18	19	
Total trade and miscellaneous payables and other current liabilities	20	21	

Remuneration to Key Managers

In 2020, the total remuneration recorded on an accrual basis by TIM S.p.A. in respect of key managers amounted to 14 million euros (18 million euros at December 31, 2019). The figure breaks down as follows:

(million euros)	2020	2019
Short-term remuneration	10	11
Long-term remuneration	—	—
Employment termination benefit incentives	2	5
Share-based payments (*)	2	2
Total	14	18

(*) These refer to the fair value, accrued to December 31, 2020, of rights under the share-based incentive plans of TIM S.p.A. (Long Term Incentive and Plans of Subsidiaries).

Short-term remuneration is paid during the reference year, and, at the latest, within the six months following the end of that period. As at December 31, 2020, they do not include the effects of the reversal of the accruals related to the 2019 costs amounting to approximately 600 thousand euros.

Long-term remuneration, at December 31, 2020, does not include the effects of the reversal of the accruals related to the 2019 costs of 500 thousand euros.

The indemnities for early termination of employment, as at December 31, 2020, do not include the effects of the reversal of the accruals relating to 2019 costs amounting to approximately 200 thousand euros.

The share-based payments at December 31, 2020, do not include the effects of the reversal of the accruals related to the 2019 costs of the LTI 2018/2020 of 400 thousand euros.

In 2020, the contributions paid in to defined contribution plans (Assida and Fontedir) by TIM S.p.A. or by subsidiaries of the Group on behalf of key managers, amounted to 135 thousand euros (141 thousand euros at December 31, 2019).

With regard to the remuneration of directors and statutory auditors due for the year 2020, pursuant to Article 2427, no. 16 of the Italian Civil Code, reference should be made to the Compensation Report, available at the Company's headquarters and on the Company's website at the following address:

www.telecomitalia.com/Assemblea.

In 2020, “Key managers”, i.e. those who, directly or indirectly, have the power and responsibility for the planning, management and control of TIM Group operations, including directors, were the following:

Directors:

Luigi Gubitosi	Managing Director and Chief Executive Officer of TIM S.p.A. General Manager of TIM S.p.A.

Executives:

Pietro Labriola	Diretor Presidente Tim S.A.
Lorenzo Forina	(1) Chief Revenue Office
Federico Rigoni	(2)
Michele Gamberini	Chief Technology & Information Office
Stefano Grassi	Head of Security
Luciano Sale	Head of Human Resources, Organization & Real Estate
Giovanni Gionata Massimiliano Moglia	Chief Regulatory Affairs & Wholesale Market Office
Carlo Nardello	Chief Strategy, Customer Experience & Transformation Office
Agostino Nuzzolo	Head of Legal and Tax
Giovanni Ronca	Chief Financial Office
Elisabetta Romano	(4) Chief Innovation & Partnership Office
Federico Rigoni	(1) Head of Procurement
Nicola Grassi	(3)
Stefano Siragusa	Chief Operations Office

(1) to February 4, 2020;

(2) from February 5, 2020

(3) to March 16, 2020;

(4) to August 5, 2020.

NOTE 38

EQUITY COMPENSATION PLANS

Equity compensation plans in place at December 31, 2020 are used for retention purposes and to offer long-term incentives to Group managers and personnel.

A summary is provided below of the plans in place at December 31, 2020. For more information on the plans in place at December 31, 2019, see the Separate Financial Statements of TIM S.p.A. at December 31, 2019.

Description of stock option plans

With regard to the 2014-2016 Stock Option Plan of TIM S.p.A., already in place at December 31, 2019, the exercise period ended on March 24, 2020 and all assigned, but not exercised, options lapsed.

Description of other equity compensation plans

TIM S.p.A. - Special Award 2016 – 2019

As required by the Regulations, following the approval of the Financial Statements for 2019, the premiums accrued under the Plan were liquidated. Therefore, in April 2020, a cash bonus of a total of 486,000 euros (20% of the accrued bonus) was paid to the recipients and a total of 2,492,305 ordinary shares (80% of the accrued premium) was assigned.

TIM S.p.A. - Long Term Incentive Plan 2018-2020

The Plan, approved by the Shareholders' Meeting of Telecom Italia S.p.A. of April 24, 2018, provides for a three-year vesting period (2018-2020) and the bonus allocation of Telecom Italia S.p.A. ordinary shares subject to the achievement of two performance conditions, as assessed by the Board of Directors when approving the TIM Group's consolidated financial statements at December 31, 2020:

- average performance of TIM ordinary shares versus the average market performance of a peer basket in the quarters preceding the start and the end of the period (70% weighting). The peer basket consists of the following Companies: Deutsche Telekom AG, Vodafone Group PLC, Telefonica SA, Orange SA, BT Group PLC, Telenor ASA, Swisscom AG, Telia Co AB, Koninklijke KPN NV, Proximus SADP, Elisa OYJ;
- cumulative equity free cash flow over the period 2018-2020 (30% weighting). This parameter is linked to the generation of cash flow, understood as net cash flow before dividends and investments in frequencies. Represents the Free Cash Flow available for the payment of dividends, the repayment of the debt, the impact of IAS 17 (finance leases) and the investment in frequencies, and do not include the financial impact of any acquisition and/or disposal of equity investments (M&A).

The Plan had two grants: a first grant reserved to the Chief Executive Officer, serviced by a maximum of 30,000,000 shares; and the second grant for a select number of Group management (serviced by a maximum of 55,000,000 shares).

Following final calculation of the results of the three-year vesting period 2018-2020, the levels will be determined for achieving the two parameters indicated, thereby quantifying any maturity of quota of the premium in shares.

TIM S.p.A. - Long Term Incentive Plan 2020-2022

The Shareholders' Meeting of April 23, 2020 approved the launch of the new rolling and equity based long-term incentive plan called LTI 2020-2022. On May 18, 2020, the Board of Directors subsequently launched the first cycle of the new Plan, for the three-year period 2020-2022, simultaneously assigning it to the CEO.

The first cycle is aimed at around 147 TIM Group staff: the CEO, Top Management and a selected segment of TIM Group management.

Each cycle of the plan is divided into two parties:

- Performance Share: free allocation of Company ordinary shares, the maturity of which is subject to an access gate linked to the value of the share and to two share and industrial performance conditions, given below.

- Attraction/Retention Share: free allocation of Company ordinary shares, the maturity of which is subject to the continuity of the employment relationship with TIM or TIM Group companies.

In relation to the Performance Share component, the performance conditions are as follows:

- Access gate, represented by the value of the security, which at the end of each cycle must be equal to or greater than the value of the security at the start of the same cycle (refer to the normal value of the share equal to the average of the official closing prices of the Stock Exchange 30 days prior to the start and end of the Plan cycle)
- NFP/EBITDA ratio, with relative weighting equal to 40%
- Relative performance (TSR) of the ordinary share compared to a basket of Peers, with a relative weighting of 60%

A payout bonus/malus mechanism equal to 4% will be applied to both components (Performance Share and Attraction/Retention Share), linked, in equal measure, to the percentage growth of use of renewable energy out of total energy and to the reduction of indirect CO2 emissions.

For the CEO, 100% of the pay opportunity is linked to the Performance Share component. For the remaining recipient managers, 70% of the Pay Opportunity is linked to the Performance Share and the remaining 30% to the Attraction/Retention Shares.

TIM S.p.A. – Broad-Based Share Ownership Plan 2020

In implementation of the resolutions passed on April 23, 2020 by the Extraordinary Shareholders' Meeting, on May 18, 2020 by the Board of Directors of Telecom Italia S.p.A, the campaign for the Broad-Based Share Ownership Plan was commenced on June 16, 2020.

The purpose of the 2020 Broad-Based Share Ownership Plan was to give Group employees the option to invest in Company shares, to increase their motivation to achieve corporate objectives and to strengthen their feeling of being part of the business.

The Plan consisted of an offer to subscribe to ordinary shares of the Company, for cash, at a discounted price compared to the market price, reserved for employees of the Company or its Italy-based subsidiaries, excluding "Top Managers".

Employees who hold the subscribed shares for a period of one year following assignment, subject to their retaining the status of employees, shall receive ordinary shares of the Company free of charge allotted to them at a ratio of 1 free share (the "Bonus Share") for every 3 shares subscribed for cash.

There were two alternative and supplementary payment methods envisaged by which to subscribe the shares: payment in cash by bank transfer and/or advance on Employee Severance Indemnity.

To service the initiative, a maximum of 127,500,000 new shares were to be issued, to be offered for paid subscription and, subsequently, a maximum 42,500,000 new shares, without capital increase, for the free allocation of 1 Bonus Share for every 3 subscribed shares.

The shares were offered from June 16 to October 30; the shares were subscribed at the unit price of 0.31 euros, corresponding to the mathematical average of the official prices recorded from May 17, 2020 to June 15, 2020, with a 10% discount.

On November 27, 2020, 126,343,913 Telecom Italia ordinary shares were issued to subscribers. In compliance with said shareholders' meeting resolution, the issue of the new shares did not result in a share capital increase and the related equivalent value of subscription was allocated to the share premium reserve.

NOTE 39

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The impact of non-recurring events and transactions on equity, profit, net financial debt and cash flows is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006:

(million euros)		Equity	Profit (loss) for the year	Net financial debt	Cash flows (*)
Carrying amount	(a)	25,008	7,161	27,324	1,200
Revenues - Revenue adjustments		(28)	(28)	—	—
Other income - Reimbursement of fine I761		—	—	(22)	22
Acquisition of goods and services - Expenses related to agreements and the development of non-recurring projects		(42)	(42)	42	(42)
Employee benefits expenses - Charges related to corporate reorganization/restructuring and other charges		(49)	(49)	350	(350)
Other operating expenses - Expenses related to disputes and regulatory sanctions and potential liabilities related to them, and expenses related to disputes with former employees and liabilities with customers and/or suppliers		(5)	(5)	241	(241)
Other operating expenses - Sundry expenses		(103)	(103)	3	(3)
Net gains on disposals of other investments		186	186	(1,816)	1,816
Miscellaneous finance expenses		(5)	(5)	—	—
Tax realignment pursuant to Decree Law 104/2020 Art. 110		5,877	5,877	—	—
Total non-recurring effects	(b)	5,831	5,831	(1,202)	1,202
Figurative amount	(a-b)	19,177	1,330	28,526	(2)

(*) Cash flows refer to the increase (decrease) in Cash and cash equivalents during the year.

The impact of non-recurring items on the separate income statement line items is as follows:

(million euros)	2020	2019
Operating revenues and other income	(39)	6
Revenue adjustments	(39)	(15)
Other income	—	21
Acquisition of goods and services, Change in inventories	(58)	(14)
Professional expenses, consulting services and other costs	(58)	(14)
Employee benefits expenses	(69)	(248)
Charges connected to corporate reorganization/restructuring and other processes	(69)	(248)
Other operating expenses	(145)	(412)
Charges resulting from disputes and regulatory sanctions and potential liabilities related to them, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	(5)	(396)
Sundry expenses	(140)	(16)
Impact on EBITDA	(311)	(668)
Impairment reversals/(losses) on non-current assets	—	—
Goodwill impairment loss	—	—
Impairment of intangible fixed assets	—	—
Impact on EBIT	(311)	(668)
Other income (expenses) from investments	227	5
Other finance income (expenses)	(7)	(10)
Impact on profit (loss) before tax	(91)	(673)
Tax realignment pursuant to Decree Law 104/2020 Art. 110	5,877	—
Income taxes on non-recurring items	45	158
Impact on profit (loss) for the year	5,831	(515)

The COVID-19 emergency, following the spread of the SARS-CoV-2 virus and pronounced a pandemic by the World Health Organization (WHO) on March 11, 2020, resulted in TIM S.p.A. incurring non-recurring expenses, gross of tax effects, for a total of 106 million euros. Adjustments booked of non-recurring revenues in 2020 (38 million euros) were connected with the commercial initiatives of TIM S.p.A. to support customers in dealing with the COVID-19 emergencies. In addition to the impacts of TIM S.p.A.'s commercial initiatives to support customers, operating costs have been incurred mainly in relation to provisions and expenses connected with the management of credits deriving from the worsening of the macroeconomic context (46 million euros), payroll costs (7 million euros), as well as miscellaneous costs and procurement for approximately 15 million euros, as have become necessary to handle the health emergency, primarily for the purchase of Personal Protective Equipment, thermoscanners and environmental hygiene services.

For more details on the tax realignment, see the Note on "Income tax (current and deferred)" of these Financial Statements.

NOTE 40

POSITIONS OR TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2020 no atypical and/or unusual transactions, as defined by that Communication, were pursued.

NOTE 41

OTHER INFORMATION

Research and Development

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

(million euros)	2020	2019
Research and development costs expensed during the year	79	55
Capitalized development costs	991	1,058
Total research and development costs (expensed and capitalized)	1,070	1,113

The decrease recognized in 2020 is mainly due to the completion of the engineering and deployment and development activities conducted on the LTE and NGAN networks, which have now reached maturity, partially offset by greater implementation activities related to the new generation 5G network.

In the 2020 separate income statement, amortization charges totaling 870 million euros were recorded for development costs capitalized during the year and in prior years.

Research and development activities conducted by TIM S.p.A. are detailed in the Report on Operations ("Research and Development" section).

Lease income

TIM has entered into lease agreements for land and buildings for office use and industrial use, infrastructure sites for the mobile network and network infrastructures; at December 31, 2020, the lease installments at nominal value still to be collected totaled:

(million euros)	12.31.2020	12.31.2019
Within 1 year	129	59
From 1 to 2 years after the end of the reporting period	65	52
From 2 to 3 years after the end of the reporting period	63	45
From 3 to 4 years after the end of the reporting period	61	43
From 4 to 5 years after the end of the reporting period	60	41
Beyond 5 years after the end of the reporting period	60	42
Total	438	282

Public Funds

Italian Law 124/2017 requires that information on subsidies, contributions, paid assignments and economic benefits of any kind received from public administrations be provided. In relation to this, funds received are shown in the following table:

Distributing entity	Area of intervention	Received in 2020 (million euros)	Received in 2019 (million euros)
Fondimpresa/Fondirigenti	training	1	4
Infratel	construction of Broadband and Ultra-Broadband infrastructure	24	28
MUR (formerly MIUR)	research projects	3	2
Sundry income (*)	innovation and Digital Divide	1	—
Total		29	34

(*) 2020 - MED; Region of Lombardy, Region of Apulia

2019 - Ministry of Economic Development (MISE); Ministry of Economy and Finance (MEF); Lazio, Piedmont and Veneto Region; Autonomous Province of Trento.

Summary schedule of fees due to the audit firm and other firms in its network

The following schedule reports the fees due to EY S.p.A. for the audit of the 2020 financial statements, and the fees referring to the year 2020 for other audit and review services, and for other services besides audit rendered to TIM by EY and other firms in the EY network. This also includes the out-of-pocket expenses incurred in 2020 in relation to said services.

(in euros)	EY S.p.A.	TIM S.p.A. Other firms of the EY	Total EY network
Audit services:			
audit of the separate financial statements	969,067		969,067
audit of the consolidated financial statements	167,000		167,000
audit of the internal control system that supervises the process of preparation of the consolidated financial statements and statutory audit limited to the financial disclosure as at March 31 and September 30	963,000		963,000
limited audit of the half-year condensed consolidated financial statements	195,000		195,000
other	633,807		633,807
Auditing services with the issue of certification	40,000		40,000
Certification of compliance of the Consolidated Non-Financial Statement	72,000		72,000
Other services	110,000		110,000
Total 2020 fees due for auditing and other services to the EY network	3,149,874	—	3,149,874
Out-of-pocket expenses	30,158		30,158
Total	3,180,032	—	3,180,032

Please also note that in FY 2020, additional auditing costs were booked for FY 2019 in the amount of 550,000 euros for EY S.p.A. due to exceptional events that could not have been foreseen when drafting the original contractual offer (of which 127,539 euros for the statutory auditing of the 2019 separate financial statements and 422,461 euros for the auditing of the internal control system that oversees the process of drafting the 2019 consolidated financial statements). A disclosure was given about these additional costs in the Shareholders' Meeting of TIM for the 2019 financial statements, held on April 23, 2020.

NOTE 42

EVENTS SUBSEQUENT TO DECEMBER 31, 2020

TIM: first Sustainability Bond placed with a maturity of 8 years

On January 11, 2021, TIM successfully completed the issue of its inaugural 1 billion euros Sustainability Bond, with an 8-year maturity, set to increase the Group's energy efficiency and finance Green and Social projects. Demand was above €4 billion demonstrating TIM's strong positioning on the international markets also in light of the presentation to the financial community, in December 2020, of the Sustainability Financing Framework which involved over 40 institutional investors.

TIM priced its bond well below the secondary market of reference, setting the annual coupon at 1.625%, the lowest ever. This transaction also sees TIM extend the average debt maturity and raise new funds for the amount exceeding the 2021 deadlines.

The proceeds of the new issue will be used to transform the copper network into fiber, which is expected to deliver significant energy efficiency. Moreover, for the first time in Italy a corporation will invest part of the funds collected into projects with social value, as envisaged in the Sustainability Financing Framework.

Issuer: TIM S.p.A.

Amount: 1 billion euros

Settlement date: 1/18/2021

Maturity: 1/18/2029

Annual coupon: 1.625%

Issue price: 99.074%

Redemption price: 100.000%.

Noovle S.p.A., the biggest cloud project for Italy

On January 25, 2021 TIM announced the birth of Noovle S.p.A., the new company wholly owned by the TIM Group intended to become an Italian center of excellence for Cloud and edge computing, boosting the offer of TIM's innovative public, private and hybrid cloud services to businesses - from SMEs to large industry - and public administration, accelerating the digital transformation of the country.

The cloud company, which is the result of the experience and digital skills of the TIM Group, its associated Data Centers and the specialized professionalism of Noovle S.r.l., a company acquired by TIM in May 2020 and one of the main Google Cloud partners in the Italian market, will focus on the supply of innovative and bespoke Multicloud services and solutions to TIM customers, ranging from the management of network infrastructure in its Data Centers, to design and support services, migration to the cloud and support for the related management activities, using the most advanced technologies based on artificial intelligence and the Internet of Things. The services offered will allow customers to face the challenges of the digital transformation and improve the user experience. Noovle wants to support companies in their cloud transformation projects and therefore bring innovation to the world of work and the digital experience. All these services will have security at their core.

Thanks to a proprietary network of 17 state-of-the-art Data Centers distributed across the country - built according to the most advanced technological and safety standards and the most recent environmental sustainability best practices, in compliance with the Group's ESG objectives - the company will offer innovative resources and services to manage servers, data and information in a secure cloud environment located in Italy.

In particular, TIM will entrust Noovle with the task of building six new Data Centers specialized in the provision of public and hybrid cloud services, with TIER IV certification, and managing seven Core Data Centers and four service centers, already in operation, for the widest range of IT solutions, located across the country, from which TIM's Cloud, hybrid Cloud and Multicloud services are provided. A cutting-edge infrastructure that will cover a total area of over 50,000 square meters nationally by 2022, with a capacity of up to 100 MW of usable IT power, closely integrated with TIM's primary fiber optic network to ensure a structural reduction of interconnection latency between services.

Noovle starts with around 1,000 professionals and estimates that it will achieve a turnover of 1 billion euros in 2024 with an average annual growth rate of around 20% and an expected EBITDA of around 400 million euros.

The strategic decision to concentrate TIM's cloud services in Noovle is part of a bigger program of major technological investments the TIM Group is making to develop the latest generation network infrastructure, key Information Technology and cloud services to support the digitization of the country's production and administrative fabric.

Noovle will strengthen the alliance already launched between the TIM Group and Google Cloud and will also make use of important strategic partnerships with the main industry leaders including Atos, Cisco, Citrix, Microsoft, Salesforce, SAP and VMware.

Agreement with Trade Unions

On March 8, 2021, an agreement was stipulated with the Trade Unions governing the early redundancy of 1,300 people - in accordance with Article 4, subsections 1 to 7ter of Italian Law no. 92/2012.

All employees accruing pension entitlement by December 31, 2026 and who choose to terminate their contract of employment by end November 2021, can adhere voluntarily.

The agreement is part of the more comprehensive generational remix and professional renewal process launched by the company in line with the digital transformation in progress.

NOTE 43

LIST OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(thousands of euros)	Reg. office		Share capital	Equity (1) (2)	Profit/ (Loss) (1)	% Ownership	Share of equity (A) (3)	Carrying amount	Difference (B-A)
Investments in subsidiaries									
CD FIBER	Rome	Euro	50	43	(1)	100.00 %	43	43	—
DAPHE 3	Milan	Euro	100	2,745,604	(30)	51.00 %	1,400,258	340,161	(1,060,097)
FIBERCOPI	Milan	Euro	50	25	(25)	100.00 %	25	50	25
FLASH FIBER	Milan	Euro	30	290,728	(336)	80.00 %	232,582	250,435	17,853
NOOVLE S.p.A.	Milan	Euro	50	50		100.00 %	50	50	—
NOOVLE S.r.l.	Milan	Euro	300	(1,012)	(1,067)	100.00 %	(1,012)	12,743	13,755
OLIVETTI	Ivrea (TO)	Euro	10,000	10,556	(6,283)	100.00 %	10,556	10,829	273
TELECOM ITALIA CAPITAL	Luxembourg	Euro	2,336	(10,301)	(8,485)	100.00 %	(10,301)	2,388	12,689
TELECOM ITALIA FINANCE	Luxembourg	Euro	1,818,692	6,474,749	92,413	100.00 %	6,423,149	(3) 5,914,971	(508,178)
TELECOM ITALIA LATAM PARTIC. E GESTÃO ADMIN.	SanPaolo (Brazil)	R\$	118,926	(38,175)	(7,527)				
		Euro	18,650	(5,987)	(1,180)	100.00 %	(5,987)	(5)	— 5,987
TELECOM ITALIA SAN MARINO	San Marino	Euro	1,808	8,298	1,458	100.00 %	8,298	7,565	(733)
TELECOM ITALIA SPARKLE	Rome	Euro	200,000	658,915	(13)	100.00 %	741,337	(6) 586,886	(154,451)
TELECOM ITALIA TRUST TECHNOLOGY	Pomezia (RM)	Euro	7,000	14,991	937	100.00 %	14,991	8,506	(6,485)
TELECOM ITALIA VENTURES	Milan	Euro	10	1,846	(336)	100.00 %	1,846	1,846	—
TELECONTACT CENTER	Naples	Euro	3,000	37,683	5,518	100.00 %	37,683	12,544	(25,139)
TELENERGIA	Rome	Euro	50	15,824	(19,031)	100.00 %	15,824	50	(15,774)
TELSY	Turin	Euro	5,390	23,582	(3,762)	100.00 %	23,582	19,519	(4,063)
TIAUDIT COMPLIANCE LATAM (in liquidation)	Rio de Janeiro (Brazil)	R\$	1,500	1,643	(185)				
		Euro	235	258	(29)	69.9996%	180	181	1
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES	Rio de Janeiro (Brazil)	R\$	7,169,030	11,090,043	642,289				
		Euro	1,124,236	1,739,124	100,723	0.00000001 %	—	—	—
TIM MY BROKER	Rome	Euro	10	97	87	100.00 %	97	10	(87)
TIM RETAIL	Milan	Euro	2,402	76,571	4,297	100.00 %	76,571	15,116	(61,455)
TIM TANK	Milan	Euro	18,600	26,990	2,150	100.00 %	26,990	24,839	(2,151)
7,208,732									(1,788,030)

(thousands of euros)	Reg. office		Share capital	Equity (1) (2)	Profit/ (losses) (1)	% Ownership	Share of equity (A) (3)	Carrying amount	Difference (B-A)
Investments in associates and joint ventures									
AREE URBANE (in liquidation)	Milan	Euro	100	(92,175)	(1,185)	32.62 %	(30,067)	—	30,067
NORDCOM	Milan	Euro	5,000	13,413	841	42.00 %	5,633	2,143	(3,490)
TIGLIO I	Milan	Euro	1,000	2,738	132	47.80 %	1,309	1,189	(120)
TIGLIO II (in liquidation)	Milan	Euro	10	178	(37)	49.47 %	88	88	—
TIMFIN	Turin	Euro	6,000	3,964	(2,036)	49.00 %	1,942	2,940	998
								6,360	27,455

(1) Figures taken from the latest approved financial statements. For subsidiaries, the data used are taken from the IFRS-prepared financial statements.

(2) Includes profit (loss).

(3) Net of dividends to be paid.

(4) Includes investment account payments.

(5) Covered by the provision for losses of subsidiaries and associates.

(6) Figures taken from the consolidated financial statements.

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF THE CONSOB REGULATION 11971 DATED MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Luigi Gubitosi, as Chief Executive Officer, and Giovanni Ronca, as Manager responsible for preparing TIM S.p.A. financial reports, certify, having also considered the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the effective application of the administrative and accounting procedures used in the preparation of the financial statements for the 2020 fiscal year.
2. TIM has adopted the Internal Control – Integrated Framework Model (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, as its framework for the establishment and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.
3. The undersigned also certify that:
 - 3.1 The separate financial statements at December 31, 2020:
 - a) are prepared in conformity with international accounting standards endorsed by the European Union pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of July 19, 2002 (International Financial Reporting Standards – IFRS) as well as the legislation and regulations in force in Italy with particular reference to Article 154-ter of Legislative Decree 58 of February 24, 1998 and the measures enacted for the implementation of Article 9 of Legislative Decree 38 of February 28, 2005;
 - b) agree with the results of the accounting records and entries;
 - c) provide a true and fair view of the financial position, financial performance and cash flows of the Company;
 - 3.2 the report on operations contains a reliable operating and financial review of the Company, as well as the description of its exposure to the main risks and uncertainties. The Report on Operations also contains a reliable analysis of information concerning significant related party transactions.

Milan, February 23, 2021

Chief Executive Officer

/ signed /

Luigi Gubitosi

**Manager Responsible for
Preparing the Corporate
Financial Reports**

/ signed /

Giovanni Ronca

INDEPENDENT AUDITORS' REPORT

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
TIM S.p.A.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of TIM S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2020, and the separate income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of separate financial statements under Italian Laws. 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Impairment test of goodwill	

As of December 31, 2020 goodwill amounts	Our audit procedures in response to the key

to Euro 23.051 million and refers to the Domestic cash generating unit ("CGU"). The processes and methodologies used by the Company to evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the forecast of future cash flows and to the estimate of the long-term growth and discount rates applied to the future cash flow forecasts.

Considering the level of judgment required and the complexity of the assumptions applied in estimating the recoverable amount of goodwill, we considered that this area represents a key audit matter.

Disclosure related to the assessment of goodwill are reported in note 3 "Goodwill" and in note 2 "Accounting policies" in the paragraphs "Impairment of intangible and tangible assets" and "Use of estimates".

audit matter included, among others:

- ▶ the assessment of the processes implemented by the Company with reference to the criteria and methodology of the impairment test;
- ▶ the validation of the CGUs perimeter and test of the allocation of the carrying value of the Company's assets to each CGU;
- ▶ the assessment of the future cash flow forecasts, including comparisons with sector data and forecasts;
- ▶ the assessment of the consistency of the future cash flow forecasts of the Domestic CGU with the business plan;
- ▶ the assessment of forecasts in light of their historical accuracy;
- ▶ the assessment of the reasonableness of long-term growth rates and discount rates.

The procedures referred to in the previous points also concerned the analysis of the assessments performed by the independent experts appointed by the Company.

In performing our analysis, we involved our experts in valuation techniques, who performed an independent recalculation and carried out sensitivity analyses on the key assumptions in order to determine which changes in the assumptions could materially affect the recoverable amount.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the separate financial statements with regards to the valuation of goodwill.

Revenue recognition

TIM's revenues amounted to € 12.030 million as of December 31, 2020 and refer almost entirely to the telecommunications services rendered to retail and wholesale customers (other telecommunications operators). Procedures over the accounting of revenues required significant focus in the context of our audit procedures due to i) a highly complex accounting process due to the number of commercial offers, the number of underlying application systems and the related reconciliation processes and ii) the presence of certain manual phases in the revenue recognition process, in particular for services provided to large customers. The Company provides the relative disclosure in Note 25 "Revenues" of the separate

Our audit procedures in response to the key audit matter included, among others:

- ▶ an understanding of the processes underlying the revenue recognition;
 - ▶ the understanding and verification of the design and operation of the relevant controls over the revenue recognition process;
 - ▶ the analysis of the application systems supporting the revenue recognition process;
 - ▶ the assessment that the accounting policy adopted for the main commercial offers is consistent with the provisions of the reference accounting standard;
 - ▶ the analysis, on a sample basis, of some significant transactions relating to invoices
-

financial statements.

issued and invoices to be issued, in order to verify that the contractual data and the evidence supporting the actual service rendered and / or goods transferred were consistent with the accounting policy adopted;

- ▶ the reconciliation of the management account with the accounting records in connection with the main balance sheet items related to customer relations;
- ▶ the analysis of the manual journal entries.

We also required external confirmations for a sample of customers and transactions. Lastly, we reviewed the adequacy of the disclosure provided in the notes to the separate financial statements with regard to the revenue recognition process.

Regulatory disputes

As of December 31, 2020, TIM is involved in several regulatory disputes in progress, many of which are characterized by significant counterparty requests.

The main disputes concern (i) the so-called 'follow-on' A428 proceedings, which arose following claims for compensation made by other Italian telco operators after certain fines had been imposed by the AGCM to TIM for market abuse of a dominant position, (ii) the 28-day billing proceeding, in which AGCOM ordered TIM to reimburse customers for unused service days, (iii) the 1820 proceeding, started by AGCM against TIM and other telco operators, to ascertain a possible conduct restricting market competition and (iv) the A514, and the related "follow-on" proposed by some other telco operators, procedure in which the AGCM charged TIM with conduct aimed at hindering the entry on the market of a new operator.

The assessment of the disputes was carried out by Management, as of 31 December 2020, based on the opinion of the external lawyers, as well as considering the latest information available.

The estimation of the risks connected to the disputes in which the Company is involved, requires a high degree of judgment by the Management and, also considering the complexity of the regulatory framework, we considered that this area represents a key audit matter.

Our audit procedures in response to the key audit matter included, among others:

- ▶ an understanding of the process put in place by Management for assessing disputes, accompanied by test of the effectiveness of the internal controls relevant for this process;
- ▶ inquiries with Management regarding the main assumptions made in connection with disputes;
- ▶ the analysis of the legal opinions prepared by external consultants, based on which Management has based its assessments;
- ▶ the analysis of the letters received from external lawyers following our external confirmations procedures.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the separate financial statements with regard to the disputes in which the Company is involved, based on their compliance with the international accounting standards and their consistency with the results of our audit procedures.

Disclosure related to the assessment of the risks relating to the regulatory disputes in which the Company is involved is reported in note 24 "Disputes and pending legal actions, other information, commitments and guarantees".

Recoverability of deferred tax assets

As of December 31, 2020, deferred tax assets amount to Euro 7,337 million in the separate financial statements.

Deferred tax assets refer to the temporary deductible differences between the book and tax values of assets and liabilities in the financial statements.

The recoverability of the carrying amount of deferred tax assets is subject to Management's evaluation and is based on the estimations of the future taxable income expected in the years in which they will be reversed.

The processes and methodologies used to evaluate and determine the recoverable amount of these assets, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the consistency of the forecasts of future taxable income expected by the Company with those included in the business plan.

Considering the level of judgment required and the complexity of the assumptions applied in estimating future taxable amount used to determine the recoverability of deferred tax assets, we considered that this area represents a key audit matter.

Disclosure related to the assessment of recoverability of deferred tax assets are reported in note 2 "Accounting policies" in the paragraphs "Income tax expense (current and deferred)" and "Use of estimates" and in note 10 "Income tax expense (current and deferred)".

Our audit procedures in response to the key audit matter included, among others:

- ▶ the assessment of the assumptions underlying the estimation of future taxable income and the reconciliation with the figures included in the Company's business plan for the period 2021-2023;
- ▶ the assessment of the accuracy of the forecasts compared to prior periods;
- ▶ the assessment of the Management calculations.

Lastly, we reviewed the adequacy of the disclosure provided in the notes to the separate financial statements with regards to the recoverability of deferred tax assets.

Responsibilities of Directors and Those Charged with Governance for the Separate Financial Statements

The Directors are responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the

European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the separate financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the separate financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the separate financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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 Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all 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 have determined those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of TIM S.p.A., in the general meeting held on March 29, 2019, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of TIM S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of TIM S.p.A. as at December 31, 2020, including their consistency with the related separate financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the separate financial statements of TIM S.p.A. as at December 31, 2020, and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements. In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the separate financial statements of TIM S.p.A. as at December 31, 2020, and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of TIM S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Rome, March 10, 2021

EY S.p.A.

Signed by: Ettore Abate, Auditor

This report has been translated into the English language solely for the convenience of international readers.

Other information

MOTIONS FOR RESOLUTIONS

SHAREHOLDERS' MEETING OF TIM S.p.A.

March, 31 2021: shareholders' meeting of TIM S.p.A. – single call

Medium

- Financial statements as at 31 December 2020 – Approval of the documentation on the financial statements - Allocation of profits and losses for the year
- Report on the remuneration policy and compensation paid - Approval of the first section (remuneration policy) - Non-binding vote on the second section (year 2020)
- Appointment of the Board of Directors - Determination of number of members of the Board of Directors - Determination of term of office of the Board of Directors – Appointment of Directors - Determination of remuneration of the Board of Directors
- Appointment of the Board of Statutory Auditors - appointment of the standing and alternate auditors - appointment of the Chairman of the Board of Statutory Auditors - determination of fees

Financial statements as at 31 December 2020 – Approval of the documentation on the financial statements - Allocation of profits and losses for the year

Dear Shareholders,

the draft financial statements for the year ending 31 December 2020 confirm the sustainability and robustness of TIM S.p.A.'s business plan, which has been capable of positive net results despite the extraordinary investment effort needed to deploy new network technologies amid a pandemic that has resulted in global economic crisis, weighing on the industry, albeit to a lesser extent than in other sectors. The Parent Company's consolidated profit is accompanied by a further reduction in Adjusted Net Debt, outperforming the targets of the 2020-2022 planning cycle.

With a total profit for the year of 7,161,469,044.90 euros (resulting from the various components set out analytically in the financial report), the distribution of dividends to both categories of shareholders has been confirmed in line with last year's distribution. Therefore, following the allocation of 22,422,995.42 euros to the legal reserve, the proposal is to proceed with a dividend distribution of 0.01 euros per ordinary share and 0.0275 per savings share, as per the category's rights under Article 6 of the Company Bylaws. The amount of the total dividend distributed – without prejudice to the unit amounts indicated above – will vary depending on the number of shares existing at the time, taking into account the capital increases in progress and the number of treasury shares held by the Company (35,179,709 ordinary shares as of today).

The dividend amounts will be payable as of 23 June 2021 to the persons entitled based on the evidence of the share deposit accounts at the end of the record date of 22 June 2021, while the coupon date will be 21 June 2021.

In the draft financial statements, the value of goodwill is realigned for tax purposes pursuant to Decree-Law No. 104/2020, Article 110(8) by placing a tax suspension restriction on a portion of net equity equal to the realigned amount, after deducting the substitute tax due for the realignment, and then proceeding with the resulting accounting records or disclosures.

In light of the above, the Board of Directors submits the following proposals for your approval:

Proposal 1: Approval of the documentation on the financial statements

The Shareholders' Meeting of TIM S.p.A.,

- having examined the annual financial report of TIM S.p.A.;
- having taken note of the reports by the Board of Statutory Auditors and the independent auditors EY S.p.A.;

resolves

- to approve the 2020 financial statements of TIM S.p.A.

Proposal 2: Allocation of profits and losses for the year

The Shareholders' Meeting of TIM S.p.A.,

- having examined the 2020 financial statements of TIM S.p.A.;
- taking into account the outstanding amount of the legal reserve;

resolves

- to allocate to the legal reserve the amount of 22,422,995.42 euros as needed to bring the total amount of the reserve up to 2,335,400,571.02 euros (equivalent to one fifth of the share capital);
- to allocate part of the profit for 2020 to pay the Shareholders a total dividend calculated based on the following amounts, which will be applied to the number of ordinary and savings shares that they own on the record date (excluding the treasury shares held by the Company):
 - 0.0100 euros (gross of withholding taxes) for each ordinary share,
 - 0.0275 euros (gross of withholding taxes) for each savings share,
- to make the dividend payable starting on 23 June 2021, with a coupon date of 21 June 2021 (record date 22 June 2021);
- to carry forward the residual profit and confer powers to the Board of Directors to proceed with any necessary accounting record or disclosure associated with the tax realignment of the goodwill carrying amount pursuant to Legislative Decree No. 104/2020, Article 110(8).

Report on the remuneration policy and compensation paid - Approval of the first section (remuneration policy) - Non- binding vote on the second section (year 2020)

Dear Shareholders,

in view of the Shareholders' Meeting of 31 March 2020, on the basis of the regulatory framework recently updated in accordance with the transposition into national law of Directive 2007/36/EC (known as the Shareholders' Rights II Directive), the report on the remuneration policy and compensation paid has been prepared.

This document is divided into two sections:

- the first illustrates the Company's policy on the remuneration of Directors, Statutory Auditors and Key Managers with Strategic Responsibilities, and is subject to a binding resolution of the Shareholders' Meeting, with the possibility of derogation in the event of exceptional circumstances, within the limits and under the procedural conditions specified in the same document;
- the second provides a representation of the items that make up the remuneration of the people mentioned above, with an analytical illustration of the fees paid to them in 2020, shows how the Company has taken into account the shareholders' vote and is subject to a non-binding resolution of the Shareholders' Meeting for or against.

In the light of the above, you are asked to vote separately on the first and second sections of the report, in the terms described above, and for this purpose the Board of Directors submits the following proposals for your approval:

Proposal 1: approval of the first section of the report on the remuneration policy and compensation paid

The Shareholders' Meeting of TIM S.p.A., having regard to the provisions applicable to the report on the remuneration policy and compensation paid,

resolves

the approval of the first section of the report on the remuneration policy and compensation paid by the Company.

Proposal 2: non-binding vote on the second section of the report on the remuneration policy and compensation paid

The Shareholders' Meeting of TIM S.p.A., having regard to the provisions applicable to the report on the remuneration policy and compensation paid,

resolves

in favour of the second section of the report on the remuneration policy and compensation paid by the Company.

Appointment of the Board of Directors - Determination of number of members of the Board of Directors - Determination of term of office of the Board of Directors – Appointment of Directors - Determination of remuneration of the Board of Directors

Dear Shareholders,

the term of office of the Board of Directors appointed by the Shareholders' Meeting of 4 May 2018 expires with approval of the financial statements for the year ending 31 December 2020. In order to renew the administrative body, the Shareholders' Meeting is called on:

- to establish the number of members of the Board, within the limits set by the Bylaws (from 7 to 19 members),
- to appoint them following the procedure laid down in the Bylaws (slate voting);
- to establish the term of office of the Board, up to a maximum of three financial years;
- to establish the remuneration.

In view of the formulation of the various proposals, a specific document has been published (available at www.gruppotim.it/en/investors/shares/agm.html), containing a summary of the applicable regulations and a series of considerations made by the outgoing Board of Directors on the optimal qualitative-quantitative composition of the Board, which you are invited to take into account. Moreover, as announced to the public, in view of the renewal, the outgoing Board of Directors has decided to make its own proposals and formulate its own slate, in compliance with the procedure that can be consulted at www.gruppotim.it/en/investors/shares/agm.html. Along with the slate and the additional proposals, the Board will file a specific report on the preliminary process completed; similarly, it is recommended that shareholders submit their slates and proposals together with adequate information on the reasons for the choices made.

The slate submitted by the Board will compete against those submitted by shareholders. Where it is necessary to supplement the board with the majorities required by law (absolute majority of the capital present at the meeting) the proposal to appoint the unelected candidates included in the properly submitted slates will be put to the vote, starting with the slate that obtains the most votes, following the order in which they are listed, in the number necessary to complete the composition of the board in compliance with the gender balance requirements. It is understood that, once the composition of the board is complete, further proposals to appoint unelected candidates from any other slates shall not be considered.

As for the additional proposals (relating to the number, term of office and remuneration of the Directors), the proposals made by the Board will be voted on first, and only if they are not approved by the Shareholders' Meeting will any proposals made by shareholders be considered, starting with the proposal submitted by shareholders who represent the highest percentage of the capital. It is understood that, once a proposal has been approved, there shall be no more voting on any alternative proposals.

All that said, the outgoing Board of Directors of TIM S.p.A., in view of the Shareholders Meeting of 31 March 2021, pending disclosure of its own slate and the necessary additional proposals (as above),

- recommends that shareholders:
 - exercise in timely fashion their rights to submit slates of candidates for the office of Director of the Company assigned to them by the law and the Company Bylaws;
 - submit, with their slates, where deemed appropriate, reasoned proposals for the number of members of the Board and the duration of its term of office and its remuneration.

Candidates should also provide a photograph and a copy of a personal identification document, and authorise publication of their curriculum vitae on the Company website, ensuring that details they do not wish to be disseminated are not included; invites shareholders to vote at due time on the additional proposals published and to make their choice from the slates submitted in compliance with the provisions of the Bylaws.

Appointment of the Board of Statutory Auditors - appointment of the standing and alternate auditors - appointment of the Chairman of the Board of Statutory Auditors - determination of fees

Dear Shareholders,

the term of office of the Board of Statutory Auditors appointed by the Shareholders' Meeting of 24 April 2018 expires with approval of the financial statements for the year ending 31 December 2020.

In order to renew the control body, the Shareholders' Meeting is called on:

- to appoint five Standing Auditors and four Alternate Auditors,
- to appoint one of the Standing Auditors elected from minority slates as Chairman of the Board of Statutory Auditors and
- to determine the Statutory Auditors' annual remuneration.

The above proposals are devolved to the Shareholders, since the Board of Directors shall only call the meeting and provide the following elements of information and recommendations. You are reminded that duration of the Auditors' mandate is established by law as three financial years, and thus until the Shareholders' Meeting called to approve the financial statements at 31 December 2023.

Appointment of the Standing and Alternate Auditors

The Company Bylaws prescribe that five Standing Auditors (two of whom of the less represented gender) and four Alternative Auditors (two of each gender) be appointed. At least two Standing Auditors and one Alternate Auditor must be chosen from among those registered in the register of chartered accountants who have acted as external auditors for a period of no less than three years. The remaining (Standing and Alternate) Auditors must have accrued at least three years' experience of:

- administration and control activity, or have held executive roles in limited liability companies with share capital of no less than two million euros, or
- professional activity or permanent university teaching of legal, economic, financial or technical-scientific subjects closely connected to the activity of the enterprise, or, further,
- senior management roles in public or government bodies operating in the banking, finance or insurance sectors or sectors otherwise closely connected to the sector in which the enterprise conducts its activity.

According to the Company Bylaws, the following sectors of activity and subjects are considered to be closely linked to that of the Company: activities and subjects related to telecommunications, information technology, telematics, electronics and multimedia technology, as well as matters related to private and administrative law, economics and business administration. Still on the subject of requirements, the applicable legislative framework should be considered as supplemented, with reference to independence, by the criteria laid down in the Corporate Governance Code of companies with shares listed on the Electronic Share Market managed by Borsa Italiana, to which TIM adheres. Finally, in light of the company's business, it is advisable for the members of the control body to individually possess the requisites to sign contracts with government bodies and to undertake activities subject to authorisation.

Renewal takes place on the basis of slates divided into two sections respectively for Standing Auditors and for Alternate Auditors. The first candidate in each section is selected from among chartered accountants entered in the appropriate register who have worked on external audits for at least three years. In each section, if there are three or more candidates, the presence of both genders must be ensured, in such a way that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the next whole number.

Slates may be submitted by 06 March 2021 by shareholders who, alone or jointly with others, hold a total number of shares that represents at least 0.5% of the capital with voting rights in the Ordinary Shareholders' Meeting. If only one (or no) slate has been validly submitted by 6 March, or the only slates submitted are from shareholders with an affiliate relationship, the submission deadline shall be extended to 9 March 2021 and the entitlement threshold halved to 0.25%. In any event, the Company must obtain the communications of entitlement to vote from the intermediaries by 10 March 2021.

Each shareholder may only submit a single slate, alone or jointly with others, providing information on its identity and the percentage of the total shareholding it holds, and shall also declare any connecting relationships, including indirect relationships, with the relative majority shareholder. Together with the slate, for each candidate an acceptance of the candidacy and a statement that they possess the requirements (including compliance with the limit on the number of offices held, as per the Consob regulation) and a curriculum vitae must be filed.

In the shareholders' meeting,

- three Standing Auditors and two Alternate Auditors will be appointed from the slate that obtains the most votes (the “majority slate”), in the order in which they are listed on the slate;
- two Standing Auditors and Two Alternate Auditors will be appointed from the remaining slates (the “minority slates”), after the assignment of a quotient obtained by dividing the number of votes for the slate by one and by two to the candidates, in the order they are listed in their slate, and selecting the candidates with the highest quotients, for the Standing Auditor and the Alternative Auditor roles, separately.

If this method does not produce gender balance, the last candidates elected from the majority slate of the more represented gender shall be replaced by the top unelected candidates of the less represented gender on the same slate. In the absence of candidates of the less represented gender on the majority slate, the Shareholders' Meeting shall supplement the Board of Statutory Auditors by a vote decided by absolute majority of the share capital represented at the meeting, thus ensuring that the requirement is met. To this end, and each time it is necessary to resolve with the legal majorities to complete the composition of the board of statutory auditors, the proposal to appoint the unelected candidates included in the properly submitted slates will be put to the vote, starting with the slate that obtains the most votes, following the order in which they are listed, in the number necessary to complete the composition of the board in compliance with the gender balance requirements.

Appointment of the Chairman of the Board of Statutory Auditors

The slate voting mechanism is intended, by law, to ensure that some Auditors are elected by the “minority shareholders not directly or indirectly associated with shareholders who submitted or voted for the slate that came first in terms of number of votes” (in accordance with article 148 of Legislative Decree No. 58/1998). The law also prescribes that the Chairman of the Board of Statutory Auditors is to be appointed by the Shareholders' Meeting from amongst the Standing Auditors “elected by the minority”, and the Company Bylaws interprets this to refer to the Standing Auditors appointed from the minority slates.

To this end, shareholders are invited to indicate expressly their candidate for the office of Chairman of the board should the slate prove to be a “minority slate”.

The Shareholders' Meeting shall resolve on this matter by an absolute majority of share capital represented at the meeting. If there is more than one useful proposal, the proposal made by shareholders who submitted the minority slate that received the most votes will be voted on first. It is understood that, once a proposal has been approved, there shall be no more voting on any alternative proposals.

Determination of the remuneration

The annual remuneration of the Statutory Auditors is determined by the Shareholders' Meeting for the full duration of their term of office, with the absolute majority of share capital represented at the meeting. If there is more than one useful proposal, the one made by shareholders who hold the most shares will be voted on first. It is understood that, once a proposal has been approved, there shall be no more voting on any alternative proposals.

Together with the slate, shareholders are invited to submit a remuneration proposal, which by practice sets apart the remuneration of the Chairman from the remuneration of the remaining Standing Auditors. In this regard, attention is drawn to the fact that – as per the organisational model adopted by TIM pursuant to Legislative Decree 231/2001 effective as of 1 April 2020 – a Standing Auditor will be called on to serve on the Supervisory Body of the Company. When formulating the remuneration proposal, it is therefore recommended to set, in addition to the “basic” remuneration to be paid to the Chairman of the board and all other Standing Auditors, an additional fee for the Standing Auditor chosen to perform this role.

For information purposes only, note that the remuneration of the outgoing Board of Statutory Auditors was established by the Shareholders' Meeting of 24 April 2018 (in keeping with the previous mandate) at 95,000 euros gross per year for each Standing Auditor and 135,000 euros gross per year for the Chairman of the Board of Statutory Auditors. At the time, the participation of a Statutory Auditor in a separate Supervisory Body was not provided for, in that the relative duties were performed directly by the Board of Statutory Auditors.

In view of all this, the Board of Directors of TIM S.p.A., in view of the Shareholders' Meeting to renew the Board of Statutory Auditors,

- recommends that shareholders:
 - exercise their rights to submit slates of candidates for the office of Statutory Auditors of the Company in a timely fashion, as per the law and the Company Bylaws;
 - submit, with the slates, additional proposals regarding the person to act as Chairman, and regarding the remuneration of the Board of Statutory Auditors members.

Candidates should also provide a photograph and a copy of a personal identification document, and authorise publication of their curriculum vitae on the Company website, ensuring that details they do not wish to be disseminated are not included; invites shareholders to make their choice from the slates submitted in compliance with the provisions of the Bylaws and to vote on the add.

GLOSSARY

The following explanations are not intended as strict definitions, but to assist readers to understand certain terms as used in this Annual Report.

2G (second-generation Mobile System)

Second-generation mobile systems using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. 2G networks are in current use all over Europe and other parts of the world. These systems support voice and limited data communications, as well as auxiliary services such as fax and SMS.

3G (third-generation Mobile System)

Third-generation wireless system, designed to provide high data speeds, always-on data access, and greater voice capacity. 3G networks allow the transfer of both traditional communication services (telephony, messaging) and data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G. 3G networks technology enable mobile video, high-speed Internet access. The standards of the 3G technology include UMTS, based on WCDMA technology (quite often the two terms are often used interchangeably) and CDMA2000.

4G (fourth-generation Mobile System)

Fourth-generation systems are designed to provide, in addition to legacy services, mobile broadband Internet access to several kinds of devices such as laptops with wireless modems, smartphones, tablets, and other mobile devices. Current and future applications include mobile web access, IP telephony, gaming services, high-definition mobile video, video conferencing, Internet of Things and cloud computing applications. 4G standards include LTE e LTE-A (LTE-Advanced). LTE offers a higher spectral efficiency in bits per Hertz and download bandwidth up to 150 Mbit/s per cell reducing the latency time. LTE enables services that require high interactivity (e.g. gaming, video conferencing). A further development of LTE, called "LTE Advanced," is being implemented and will allow reaching even higher bitrates in download.

5G (fifth-generation Mobile System)

5G indicates the fifth-generation wireless systems that will be introduced on market soon. International standard fora like 3GPP (3rd Generation Partnership Project) and ITU (International Telecommunication Union) are defining characteristics and standards of 5G future connectivity and the first field trials have already been carried out. The main elements of the 5G network will be:

- bit-rate significantly higher than 4G in larger spectrum bandwidth (up to tens of Gbit/s over hundreds of MHz) to ensure greater quality of service, for innovative services such as video download and live streaming;
- ultra-low latency in the order of milliseconds;
- possibility of connecting simultaneously hundreds of thousands of objects (Internet of Things): wearable technologies, automatic systems for traffic control, assisted driving for vehicles, home automation;
- ability to connect moving vehicles at higher speeds.

Amount charged by national operators for the use of their network by other operators' customers. It is also known as an "interconnection charge".

5G NR

5G New Radio. It is the new 5G Radio Access Technology (RAT). See 5G SA and NSA.

5G NSA

The non-standalone (NSA) mode refers to a 5G deployment option where NR works in cooperation with an LTE access.

5G SA

The standalone (SA) mode refers to a 5G deployment option based only on one 5G RAT (i.e. NR or LTE) without cooperation with another RAT), connected to a 5G Core Network.

ADS (American Depositary Shares)/ ADR (American Depositary Receipt)

Instruments used for the listing on the NYSE (The New York Stock Exchange).

ADSL (Asymmetric Digital Subscriber Line)

Technology that transforms through a modem the traditional copper fixed line into a high-speed digital connection for the transfer of multimedia data. ADSL is an asymmetrical technology used to achieve broadband transmission.

Agile

In software engineering, the expression Agile (or agile software development) refers to a set of software development methods that are opposed to traditional models such as cascade models (e.g. waterfall model); Agile methods propose a less structured approach focused on the objective of delivering to the customer quickly and frequently software that is functional and with best quality. Among the practices promoted by agile methods, today in general referred to the Project Management of products (not exclusively software), there are: the setup of small, poly-functional and self-organized development teams, iterative and incremental development, adaptive planning, and the direct and continuous involvement of the customer in the product development process.

AI (Artificial Intelligence)

Ability of a technological system to solve problems and carry out tasks and activities typical of the mind and human behavior. In the computer science field, it is the discipline that deals with creating machines (hardware and software) able to "act" autonomously (solve problems, perform actions, etc.).

API (Application Programming Interface)

An API is a set of procedures used to interact with other programs and expand their functionalities. APIs are software libraries available for a given programming language that extend some functionality of the platforms making them interoperable and open to different implementations.

ATM (Asynchronous Transfer Mode)

A network protocol through which the transfer of data is achieved using the encapsulation of fixed length (53 bytes) data units, called cells, instead of variable-length packets as is the case in packet-switched networks.

Automation

This term identifies technologies for automated equipment, systems and processes automation, reducing the need for human intervention and simplifying network setup and maintenance activities.

Backbone

Portion of the telecommunication network that supports long-distance connections and aggregates large amount of traffic and from which the connections for serving specific local areas depart.

Backhauling

It refers to the interface between the radio access node and the core network.

Big Data

Big data is a term used to describe the set of technologies and methods for massive data analysis. The term indicates the ability to extrapolate, analyze and relate a huge amount of heterogeneous, structured and unstructured data, to discover the links between different phenomena and predict the future ones.

Bit-stream access

Wholesale interconnection services which consist in the supply by a dominant telecommunications operator (incumbent) of access transmission capacity between an end customer and an interconnection point of another operator (OLO).

Blockchain

The Blockchain represents an innovative technology for structuring data and information with sharing on the network; a blockchain system is like a distributed database or virtual register, structured as a chain of blocks (hence the term blockchain) containing the transactions, and whose validation is entrusted to a consensus mechanism distributed on all the nodes of the network participating to the chain. The main characteristics of blockchain are the immutability of the registry, the traceability of transactions and the security based on advanced cryptographic techniques. Blockchain technologies are currently used to support global supply chains, financial transactions (e.g. BitCoin), accounting assets and distributed social networks.

BRAS (Broadband Access Server)

Also named BNG, it is an equipment that handles the access sessions of fixed broadband users. It authenticates the users, terminates the logical links originated at users' premises, produces user accounting data, may apply policies and QoS techniques.

Broadcast

Simultaneous transmission of the same information to all nodes and terminal equipment of a network.

BSC (Base Station Controller)

Control node of the 2G radio access network and interface with the MSC switching node. It has the task of supervising and controlling radio resources, for both call or data setup and maintenance.

BSS (Business Support System)

The system used by network operators to manage business operations such as billing, sales management, customer-service management and customer databases.

BTS (Base Transceiver Station)

Radio base station transmitting and receiving the GSM radio signal to cover an area, split in one or more cells) by using one or more radio transceivers (TRX). BTS performs also GSM communications ciphering/deciphering.

Bundle

Commercial offer including multiple telecommunications services (voice, broadband internet, IPTV, other) by an operator under the same commercial brand. Dual Play bundle includes fixed telecommunication services and broadband Internet; Triple Play bundle is the "dual play bundle" integrated with IPTV; Quadruple Play bundle is the "bundle triple play" integrated with mobile telecommunication services.

Bypass

Opposite of COLT; these are Central Offices that don't contain active equipments for NGA customers; in long term plans will be released, not before migrating all legacy services.

Caching

Web contents caching (videos, HTML pages, images, etc.) is a technology that allows to reduce bandwidth usage and content access time. A cache stores copies of documents requested by users in location closer to the users than the originating sites, so that subsequent requests can be satisfied by the cache itself, under appropriate conditions.

Carrier

Telecommunication services operator, providing a transport of communication services by means of its physical telecommunication network.

Carrier Aggregation

Technology used to aggregate more radio carriers to increase the transmission speed over a wireless network.

CCA (Current Cost Accounting)

A method of accounting that values assets at their current replacement cost rather than their original cost.

CDMA (Code Division Multiple Access)

CDMA is a channel multiple access method used in radio communication. First radio systems based on CDMA were developed by Qualcomm, and commercially introduced in 1995. It enables the simultaneous transmission on the same channel of multiple signals, each of which is uniquely coded to distinguish it from the other messages.

CDN (Content Delivery Network)

Content Delivery Networks, are content distribution systems (especially large multimedia contents, such as IPTV) managed by a Service Provider for the provision of audio streaming services and video, with better quality towards customers.

CDP (Carbon Disclosure Project)

International initiative that encourages companies to focus on the management of the risks and opportunities emerging from climate change.

Cell

Geographical portion of territory illuminated by a radio base station.

Central Office

A building where the copper wires or optical fibers that make up the access network, reaching the customers, originate from. It hosts equipment for telephony services ('Stadio di Linea' in TIM terms), broadband services (DSLAM) and possibly ultrabroadband services (OLT). Some COs also host equipment of higher hierarchical rank (SGU for telephony, router for data services), and those COs also collect traffic from the other COs which are not so equipped.

Central Unit (CU)

It is a logical node hosting PDCP, RRC and SDAP protocol layers and other control functions based on a higher layer functional split.

Channel

The portion of a communications system that connects a source to one or more destinations by means of transmission media and optical, electric, electromagnetic signals.

Closed User Group

Group of customers who can make and receive calls or messages within the group at special conditions (restricted access, dedicated pricing).

Cloud

The term Cloud is used as an abbreviation of the concept of "Cloud Computing, i.e. a model of consumption of processing resources (for example networks, servers, memory, applications and services) through the network; with the Cloud, the end customer, otherwise defined as cloud consumer, is allowed to access, widespread, easy and on-demand to a shared and configurable set of resources that can be quickly acquired and released with minimal management or interactions with the service provider. The Cloud model is made up of five essential features: 1) Self Service on customer request, 2) broad-network access, 3) resource sharing, 4) elasticity/automation in resource demand, 5) certified SLAs, three service models (see also SaaS, PaaS and IaaS) and four distribution/deployment models (private, public, hybrid and communities).

Cloud native

Cloud native refers to an approach to build applications in a way that allows the full exploitation of the cloud paradigm (see Cloud).

Cogeneration

Cogeneration is the combined production of electrical (or mechanical) energy and useful heat from the same primary source. By using the same fuel for two different purposes, cogeneration aims at a more efficient use of primary energy, with associated cost savings especially in production processes where there is a strong overlap between the use of electricity and heating.

Cognitive Computing

Advanced artificial intelligence system in which the machines have part of the typical functions of a human brain. Cognitive computing technologies are able to process enormous amounts of information, learn autonomously, interact in human language and reproduce human thought models.

COLT (Central Office Long Term)

It refers to Central Offices that remain also for long term plans, connecting NGA customers with Fiber Optic.

Community

A group of people who have some interests in common and communicate via Internet (i.e. via social network).

Connected Cars

A connected car is a vehicle with an internet access and sensors for sending and receiving signals, perceiving the surrounding environment and to get in touch with other vehicles and services.

Co-siting

Agreements to share technological sites (for Telecommunications, specifically, sites of access to the network and passive infrastructure) by several operators in order to achieve a more efficient use of network infrastructure in urban and rural areas.

CO2 - Carbon Dioxide

Carbon dioxide is one of the major greenhouse gases. It is linked to industrial processes and is the product of combustion especially as the result of the use of fossil fuels.

CPE (Customer Premise Equipment)

The Customer Premise Equipment is an electronic device (terminal, telephone, modem) for telecommunications used on the user's side that is able to connect directly to the geographic transmission network through appropriate interfaces. The connection between the CPE and the network can be realized on physical carrier (optical fiber, telephone twisted pair) or on radio (wireless) carrier.

CPS (Carrier Pre-selection)

Within the framework of the Equal Access policy guaranteed to all operators, the CPS (Carrier Pre-Selection) is a feature of the telephone network that allows to permanently specify the call routing to the chosen operator. This function must be implemented by the access operators in their own plants.

C-RAN

It refers to a Centralized Cloud RAN, a paradigm addressing centralized processing, collaborative radio, real-time cloud computing, and power efficient infrastructure. It is an architecture that aggregates Base Stations computational resources into a central pool by enabling improved radio coordination. C-RAN exploits software-defined networking (SDN) and Network Functions Virtualization (NFV) techniques as well as data center processing capabilities to enable the separation of the control and data planes and to achieve high flexibility by allowing network resource sharing in a dynamic way.

Cybersecurity

It deals with the analysis of threats, vulnerabilities and the risk associated to internet-connected systems, including hardware, software and data, to protect them from the attempt to expose, alter, disable, destroy, steal or gain unauthorized access or make unauthorized use of an asset.

DAS (Distributed Antenna System)

It is a network of distributed antennas connected to a signal source in order to provide wireless services in a geographical area or indoor. The Radiofrequency signal is combined and distributed through an antenna system.

Data Center

The Data Center is the department of a company that hosts and manages back-end IT systems and data repositories: so, its mainframes, servers, databases, etc. In the past, this type of management and control was in a single physical place, hence the name of data center. The development of new distributed computing technologies has inaugurated new management criteria that see more data centers located/distributed at both a physical and virtual level.

DCC (Digital Contact Center)

It is a set of platforms used to connect customers to most appropriate human and virtual Customer Care agents, via different channels (voice, web, apps, mail, chat, sms) and to support agents in the interaction with customers (e.g. Verbal Ordering, Back Office).

DDoS (Distributed Denial of Service)

A distributed denial-of-service (DDoS) is an attack to a target, such as a server, website or other network resource, and cause a denial of service for users of the targeted resource. A flood of incoming messages, connection requests or malformed packets to the target system forces it to slow down or even crash and shut down, thereby denying service to users or systems.

Decommissioning

The term decommissioning means the disposal of the oldest technological solutions (legacy or obsolete) in order to rationalize and simplify the current Telecommunication networks with the aim of optimizing investments and improving the quality and time-to-market of services.

DevOps

In computer science, with DevOps (from the English contraction of Development and Operations) we mean an agile method of software development that aims at communication, collaboration and integration between developers and operations operators. DevOps is therefore an approach to the development and implementation of applications in a company, that has as its objective the release of the product, the testing of the software, the evolution and maintenance (correction of bugs and minor releases) to increase reliability and security and speed up development and release cycles.

Digital divide

The gap between people with effective access to digital and information technology and those with very limited or no access at all. The term encompasses among other things: gaps in ownership of or regular access to a computer, or internet access due to being located in geographical areas with no broadband connectivity.

Distributed Unit (DU)

It is a logical node hosting RLC/MAC/High-PHY protocol layers based on a lower layer functional split.

DLA (Data Layered Architecture)

It is an architecture for real-time management of user data in telecoms networks (such as user profiles, etc.). It introduces a separation between a logically centralized data storage layer, taking care of data consistency and availability, and a front-end layer which handles requests coming from network elements.

DNS

The register containing the numeric IP addresses (for example 123.456.789.0) associated with the alphanumeric addresses (name.surname@dominio.com) commonly used to identify a website or e-mail address.

DPI (Deep Packet Inspection)

It is a technology for analysis of live traffic packets which looks 'deeply' into packets payload, i.e. up to application level, rather than just at IP/TCP/UDP headers level. It enables advanced traffic management.

Dsl Network (Digital Subscriber Line Network)

It is a network technology family that provides wide bandwidth digital transmission at short distances, through the traditional twisted copper pairs from the first switching office to the end user.

DSLAM (Digital Subscriber Line Access Multiplexer)

DSLAM denotes equipment multiplier of digital access lines able to process digital signals of various clients with xDSL lines and multiply them in a high rate data link to the nodes of the Internet.

DTT (Digital Terrestrial TV)

Digital Terrestrial Television Broadcasting is a type of broadcasting technology that provides a more effective way of transmitting television services (in terms of number of channels and images quality) using a digital system.

DVB-H (Digital Video Broadcasting-Handheld)

DVB-H was a standard for the transmission of digital video optimized for mobile networks and handheld devices such as smartphones and cellular phones.

DWDM (Dense Wavelength Division Multiplexing)

It is a technology for multiplying and transmitting at the same time optical signals with different wavelengths in a single optical fiber in order to increase the available amount of bandwidth.

EDGE (Enhanced Data for GSM Evolution)

It is a technology that increases the speed of data transmission of the GPRS the standard from 30-40 Kbit /s to 400 Kbit / s in the best radio transmission condition.

Edge (Network Edge)

It is a segment of the network lying between access and core, wherein service functions are located (such as, e.g. those performed by BRAS). Depending on the context, it may be quite distributed e.g. to the level of mobile Base Station, or less distributed e.g. at the edge of the backbone.

Edge cloud.

It refers to a cloud infrastructure deployed at the network edge. An Edge Cloud architecture is used to decentralize (processing) power to the edges (clients/devices) of the network.

EEB (Energy Efficiency in Buildings)

International initiative promoted by the WBCSD (World Business Council for Sustainable Development) for research in energy efficiency in buildings in order to reduce the environmental impact and the energy costs.

EFFC (Extraction Full Free Cooling)

A cooling system for the reduction of consumption without the use of greenhouse gases. The EFFC is based on the principle of free cooling (forced ventilation without the use of air-conditioning), combined with a system to extract the hot air produced by the apparatus and further cooling (adiabatic) of incoming air obtained by exploiting a zone with a high concentration of nebulized water.

EMF limits (ElectroMagnetic Field limits)

Electromagnetic fields are present everywhere and are generated both by natural sources (thunderstorms, earth magnetism) and human-made ones such as power lines, TV antennas, mobile base stations, microwave ovens. They are known to affect human body in ways that depend on their frequency. For radiofrequency fields, such as those produced by mobile base stations and mobile handsets, the major biological effect is heating of the body tissues. The current view of scientific community, as outlined by World Health Organization, is that while exposure to high levels of EMF are harmful to health, there is no evidence that prolonged exposure to low levels of EMF might be harmful. The definition of what is meant to be a level low enough to be harmless is left to individual Countries, however guidelines have been defined by the International Commission on Non-Ionizing Radiation Protection (ICNIRP).

Regarding Italy, the exposure limit is 20 V/m. Moreover, in homes, schools, playgrounds and places where people may stay for longer than 4 hours per day, an 'attention value' of 6 V/m is applied and averaged over any 24 hour period.

EMS (Environmental Management Systems)

Environmental management systems contribute to the sustainable management of production and support processes and are a stimulus to the continual improvement of environmental performance as they are tools to ensure effective management, prevention and the continuous reduction of the environmental impact in work processes.

eNB (Evolved Node B)

It is the Radio Base Station in 4G technology, which implements LTE radio interface and manages its radio resources.

EPC (Evolved Packet Core)

It is the core segment of a 4G network. It performs management of user mobility, routing of traffic (which in 4G is only packet traffic), policy enforcement, production of accounting data, interconnection with IP networks.

EPS (External Power Supplies)

External power supplies of equipment.

eSIM (embedded SIM)

It represents the evolution of the SIM: it is an integrated circuit embedded directly inside a device and consequently not extractable and not replaceable, but remotely managed through the functionality of the device itself.

Ethernet

Family of computer networking technologies for local area networks (LANs) and metropolitan area networks (MANs).

EuP (Energy-using Products)

The Eco-Design Directive for Energy-using Products (2005/32/EC) establishes a regulatory framework that manufacturers of energy-using products (EuPs) must follow, from the design phase onward, to increase energy efficiency and reduce the negative environmental impact of products.

Feeder

Carrier class IP routers that perform the function of collecting and concentrating fixed and mobile network traffic as well as commercial one, originating from a basin of Central Office Areas. The traffic collected by the Feeders is delivered in double homing to the Metro nodes on physically diversified routes.

FFC – Full Free Cooling

Cooling system based on the use of forced ventilation to reduce energy consumption.

Fronthaul

In the functional split of a Base Station, it refers to the interface between the Remote Unit (RU) and the Distributed Unit (DU).

FSC (Forest Stewardship Council)

The Forest Stewardship Council is an international non-profit NGO. The FSC represents an internationally recognized forest certification system. The purpose of certification is correct forest management and traceability of forestry products. The FSC logo guarantees that a product has been made with raw materials deriving from forests correctly managed according to the principles of the two main standards: forest management and chain of custody. FSC certification is an independent, third-party scheme.

FTTx (Fiber To The x)

It is the term used to indicate any network architecture that uses fiber optic cabling in telecommunications access networks to replace, partially or totally, traditional copper cables. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user's location. In the case of FTTC (Fiber to the Cabinet) the fiber connection reaches the equipment (distribution cabinet) located on the sidewalk, from where copper connections are run to the customer; in the case of FTTB (Fiber to the Building) the fiber arrives at the base of the building to a distribution box from where the vertical copper connection starts; in the case of FTTH (Fiber to the Home), the fiber connection terminates inside the customer premises.

FWA (Fixed Wireless Access)

Fixed Wireless Access refers to a set of transmission systems developed to exploit specific frequencies of the radio spectrum in order to provide fixed broadband connectivity services (with nominal connection speeds equal to 1 Gbps).

Gateway

An interconnection node between networks. A Gateway node may be used to separate networks belonging to different Domains or make functionally different networks interwork through protocol interworking.

G-FAST

G.FAST (Fast Access to Subscriber Terminal, group "G" of the ITU-T recommendations) is a DSL standard, fourth generation on copper, adopted by ITU-T starting from 2014 that allows to reach aggregate Downstream speeds + Up Stream of about 500 Mbit / s up to 100m and about 800-900 Mbit / s up to 50m.

It is therefore a technology with a speed higher than VDSL2 and eVDSL but, being optimized for very short distances, it requires the network devices to be positioned even closer to the customer than the cabinets line, or rather in distribution boxes at or at the base of buildings.

GPRS (General Packet Radio System)

Packet switched system to efficiently transmit data over 2G cellular networks.

GPON (Gigabit capable Passive Optical Network)

A passive optical network (PON) is a network architecture that brings fiber cabling and signals to the home using a point-to-multipoint scheme that, by unpowered fiber optic splitters, enables a single optical fiber to serve multiple premises.

GRX (GPRS Roaming eXchange for Mobile Operators)

The GRX service allows Mobile Operators to globally interconnect GPRS networks around the world enabling global GPRS roaming coverage.

GRI (Global Reporting Initiative)

The Global Reporting Initiative (GRI) is a leading organization in the field of sustainability. GRI promotes sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

GSM (Global System for Mobile Communication)

A worldwide standard for digital cellular telephony working on the 900MHz and 1800MHz bands. It belongs to the Second Generation (2G) of mobile systems.

HCFC (Hydrochlorofluorocarbons)

Chemical compounds used mainly in cooling systems to replace chlorofluorocarbons (CFCs) which were banned by the Montreal Protocol. They have a more limited effect in depleting the ozone layer (approximately 10% of the ozone-depleting potential of CFCs).

HFC (Hydrofluorocarbons)

Compounds used in cooling systems. They belong to the family of greenhouse gases. They do not harm the ozone layer.

HDSL (High-bit-rate Digital Subscriber Line)

Technology of xDSL family, standardized in 1994. It provides up to 8 Mb/s symmetrical over copper.

HLR (Home Location Register)

Database where customer data are recorded. It is part of 2G and 3G systems.

Home Access Gateway – Access Gateway – Home Gateway – Residential Gateway

Home networking device that is used to concentrate voice/data/video traffic of customers for private TLC networks and to connect devices in the home to the Internet or other WAN.

Housing

Leasing of physical space to customers, which is managed within a data center for the installation of their own equipment or servers.

HSPA (High Speed Packet Access)

Evolution of UMTS, which enables broadband mobile data both in Downstream (HSDPA) and Uplink (HSUPA), up to 42 Mb/s and 5.76 Mb/s, respectively.

IaaS (Infrastructure as a Service)

Through a Cloud IaaS offer (Infrastructure as a Service, see also Cloud models), a consumer acquires from a Cloud Provider in a flexible and dynamic way computing, memory, network resources and other fundamental calculation resources, through which the customer can develop and run arbitrary software, including operating systems and applications. The consumer does not manage or control the underlying Cloud infrastructure, but controls operating systems, memory, applications and possibly, in a limited way, some network components (e.g. firewalls).

ICT (Information and communication(s) technology)

Broad area concerned with information technology, telecommunications networks and services and other aspects of managing and processing information, especially in large organizations.

IEEE (Institute of Electrical and Electronics Engineers)

An organization of professional scientists aiming at promoting technology science and research in the field of electrical and electronics engineering and related fields. IEEE also works as a publishing house and standardization body.

IMS (IP Multimedia Subsystem)

It is the architecture for providing IP Multimedia services, i.e. voice/video/text/etc communications over IP networks. It comprises all the network elements related to signaling and media flow handling.

IMSI (International Mobile Subscriber Identity)

The International Mobile Subscriber Identity is a unique identifier associated with a SIM card in cellular networks.

Interconnection

Interconnection refers to the physical and logical connection among public telecommunication networks belonging to different operators, in order to enable users of an operator to communicate with users of the same or a different operator, or to access services provided by another operator.

Internet

Global network for networks interconnection based on a common protocol suite, i.e. TCP/IP, which is the language by which connected equipment (hosts) are able to communicate.

Internet of Things

The Internet of Things refers to the extension of Internet to the world of objects (devices, equipment, systems,...), which become recognizable and acquire intelligence thanks to the fact that they can communicate data about themselves and access aggregate information from part of others. There are many fields of applicability: from industrial applications (production processes), logistics and infomobility, to energy efficiency, remote assistance and environmental protection.

IP (Internet Protocol)

A connectionless data routing protocol, used for data transmission on both public and private networks, in particular over the Internet.

IPCC (IP Contact Center)

See DCC.

IP/MPLS (Internet Protocol/Multi Protocol Label Switching)

A packet switching protocol to optimize network behaviors of mapping Layer3 (IP) end-to-end data flow to Layer2 traffic between adjacent network nodes.

IPTV (Internet Protocol Television)

A system that utilizes the Internet Protocol infrastructure to transmit digital television content over a network and deliver it via a broadband Internet connection.

ISDN (Integrated Services Digital Network)

A narrowband system in which several services (e.g., voice and data) may be simultaneously transmitted end to end in digital form.

ISPs (Internet Service Provider)

A vendor who provides access to the Internet and World Wide Web.

ITU (International Telecommunication Union)

An international organization that aims to set telecommunications standards and in the use of radio waves. Founded in 1865 in Paris, it is one of the specialized agencies of the United Nations and its head office is in Geneva.

Jitter

In electronics and telecommunications jitter indicates the variation of one or more characteristics of a signal such as, amplitude, frequency, phase, transmission delay. The causes leading to jitter must be kept at the center of the design of electronic systems and components in which signal integrity is a strict constraint.

KVAR (kilovolt-ampere reactive)

Measurement system, expressed in kilovolt, of electric current lost in an AC electrical system.

LAN (Local Area Network)

A private network that covers a local geographic area and provides telecommunications services as well as interconnection between personal computers.

Lambda

Represents the single optical channel on which a signal is transmitted in fiber-optic networks.

Latency

The latency of a system can be defined as the time interval between the time the input arrives to the system and the time when its output is available. In other words, latency is nothing more than a measure of the speed of response of a system.

LCA (Life Cycle Analysis)

Analysis methodology for the evaluation and quantification of environmental impacts associated with a product/process/activity along the entire life cycle from the extraction and acquisition of raw materials to the end of its life.

LLU (Local Loop Unbundling)

Service by which operators other than TIM can lease the local loop, i.e., the wire connection between the TIM local exchange and the customer's premises.

Local Loop (Twisted Pair)

Twisted pair of copper wires through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called the “last mile”.

LTE (Long Term Evolution)

See 4G.

Machine Learning

It is the ability of computers to learn without having been explicitly and preventively programmed.

mMTC (Massive machine type communication)

mMTC, also known as massive machine communication (MMC) or massive Machine to Machine communication, is a type of communication between huge number of machines over wireless networks where data generation, information exchange and actuation takes place with minimal or no intervention from humans.

MEMS (Micro-Electro-Mechanical Systems)

MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

MGCP (Media Gateway Control Protocol)

An Internet Engineering Task Force (IETF) signaling protocol allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

MGW (Media GateWay)

Equipment that processes voice and video traffic adapting codings between different technologies (e.g. from circuit to packet).

Microservices

In the development of modern software applications, when the term micro-services is used, a specific architectural model for the development of a single application as a suite of small services is indicated; each micro-service is identified as a specialized processing process (e.g. a web server, a storage application, etc.) and is able to communicate with fast and lean mechanisms, often based on API interfaces for the description of HTTP resources. These services provide capabilities for the development of a company's business and are particularly suitable for the creation of software products according to agile methodologies; each micro-service can be implemented and managed independently using fully automated implementation algorithms, thus ensuring maximum flexibility in the development and maintenance of applications.

Midhauling

In the functional split of a Base Station, it refers to the interface between the Distributed Unit (DU) and the Central Unit (CU).

MIMO (Multiple Input Multiple Output)

It is a set of techniques aimed to increase the overall bitrate of radio access through simultaneous transmission of two (or more) different data signals on two (or more) colocated antennas, using the same frequency resources. The receiving side, also equipped with two or more antennas, is able to discriminate the different data signals by exploiting the differences in time and direction of arrival of the simultaneous signals that are caused by multipath propagation. Actually, multipath propagation i.e. the fact that a signal from A reaches a point B via multiple paths due to reflection and scattering from objects (such as buildings, trees) is a natural phenomenon affecting radio communications, which used to be seen as an impairment. Conversely, MIMO techniques exploit (using suitable signal coding) this multiplicity of paths to increase capacity.

MSC (Mobile Switching Center)

Executes functions such as controlling calls, switching traffic, billing, controlling and authentication and acts as an interface with other networks.

Multimedia

A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid services created through their interaction.

Multicast ABR (Multicast Adaptive Bit Rate)

Technology that encodes the video multicast traffic in different streams at different bitrates, used according to the channel conditions, allowing to optimize the use experience the use of network resources.

MVNO (Mobile Virtual Network Operator)

MVNO is a mobile communications service provider that does not own the radio spectrum or wireless network infrastructure over which the MVNO provides services to its customers.

NaaS (Network as a Service)

The term NaaS (Network as a Service) refers to the provision of virtual network services by a Network Provider to a third party, such as a Service Provider not equipped with geographically networked resources, or a medium/large customer that requires basic or advanced connectivity resources on a public or shared network infrastructure. Some examples of services that refer to the NaaS model are VPNs (Virtual Private Networks, Dynamic Bandwidth Services (BoD, Bandwidth on Demand) and Mobile Network Virtualization. Today, the spread of NaaS offers is increasingly supported by flexible network virtualization models and the use of network programming and automation technologies, such as Software Defined Networking (SDN).

Naked

A digital subscriber line without an analog or ISDN telephony service. It is a line dedicated to data services.

NB IoT (NarrowBand Internet of Things)

It is a 3GPP specification enabling the Internet of Things, based on the optimization of narrowband radio access aimed at the application of LTE technology to sensor networks: few and small messages per day, high coverage range (e.g. to reach the counters in the basements), very high battery life (target 10 years), high number of connections per cell (tens of thousands) and very low cost of the modules.

Net Neutrality

Net neutrality is the principle that Internet service providers should treat all data equally and not discriminate or charge differently based on user, content, website, platform, application, type of equipment, or method of communication.

Network

An interconnected system of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fiber optic or metallic cables or radio connections.

Network cap

See Price cap.

Network Slicing

Network Slicing referred to 5G. Creation of multiple ad hoc logical networks segregated from each other on the same physical network infrastructure. Each network slice is an isolated end-to-end network tailored to fulfil different requirements requested by a particular application.

NFV (Network Function Virtualization)

The NFV paradigm allows both fixed and mobile network functions to become software applications, called VNF (Virtual Network Function), which the operator can instantiate on commercial servers, exploiting virtualization technologies, separating the link between hardware and software present in the current network devices.

NGAN (New Generation Access Network)

It can be realized with different technological solutions, typically fiber optic and VDSL pairs.

NGCN (Next Generation Core Network)

TIM's own name for the IP backbone.

NGDC (Next Generation Data Center)

A major rethink of the IT and Data Center architecture through the physical concentration and virtualization of servers to reduce the costs of maintenance/management and energy consumption, and to improve efficiency.

NGN (Next Generation Network)

New generation network created by TIM to meet the demands of corporations, public administrations and citizens. The new network architecture guarantees an infrastructure designed to cover multiple offers by increasing customization levels and bandwidth availability, removing bandwidth limits and providing a huge capacity along with a wide selection of access systems.

NGNs (Non-Geographic Numbers)

Non-geographic numbers are unique as they are by definition not associated with any particular geographic location (e.g. premium rate services, toll free, directory assistance services).

Node

Topological network junction, commonly a switching center or station.

Node B (similar to BTS in GSM)

This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal that creates cell coverage (typically 3 cells for Node B). It also performs functions that are strictly linked to managing the radio connection.

N-play offering

Offerings to customers which bundle two or more of the following mobile and fixed services: voice, broadband and ultrabroadband data, video and TV, mobile.

NYSE

The New York Stock Exchange.

OAo (Other Authorised Operator)

Operators other than the incumbent one that provide services to their customers exploiting the fixed access network of the incumbent.

OHSAS (Occupational Health and Safety Assessment Series)

International Standard that sets the requirements that a management system for the protection of workers' health and safety must meet.

OLOs (Other Licensed Operators)

Companies other than the incumbent operator that operate telecommunications systems in a national market.

OLT (Optical Line Termination)

Optical element of the PON network (Passive Optical Network) that acts as an interface between the PON itself and the Backbone network. OLT is located in the central office.

ONU (Optical Network Unit)

Optical element of the PON network (Passive Optical Network) which acts as an interface with the user access device or the distribution network to users. ONU is located in the distribution cabinet.

OPB (Optical Packet Backbone)

It is the multiservice IP backbone for national transport. It is made up of interconnected nodes which are called OPB nodes, and of the very high capacity connections existing between them.

OPM (Optical Packet Metro)

It is a metro-regional network that provides Ethernet and IP connectivity for fixed and mobile network traffic, as well as for Retail or Wholesale customers. It consists of IP routers distributed on three hierarchical aggregation levels: Remote Feeder, Feeder and Metro, interconnected in double homing by physically diversified (where possible) double-way links.

Open Source

Open Source is a computer software in which source code is released under a license in which the copyright holder grants users the rights to study, change, and distribute the software to anyone and for any purpose. Open-source software may be developed in a collaborative public manner.

Optical fiber

Thin glass, silica or plastic wires, building the base infrastructure for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of delivering a signal (light impulse) at almost

unlimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer “heavy” data loads protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable and copper twister-pair lines.

ORAN

It refers to Open RAN, an architecture for building the virtualized RAN on open hardware, with embedded AI-powered radio control. Such an architecture is based on well-defined, standardized interfaces to enable an open, interoperable supply chain ecosystem in full support of and complimentary to standards promoted by 3GPP and other industry standards organizations.

OSS (Operations Support System)

Methods and procedures (whether automatized or not) that directly support the daily operation of the telecommunications infrastructure.

OTN (Optical Transport Network)

It is a technology designed to enable multiplexing of digital signals for transport over WDM links, and to achieve OAM capabilities for these signals similar to those available in SDH.

This allows a better utilization of WDM links, since it allows to fill lambdas with high rate signals (e.g. 100 Gb/s), which may contain several lower rate signals (e.g. 10 Gb/s), rather than devoting a lambda for each lower rate signal.

OTT (Over the Top) players

Operators offering contents and services on the Internet without owning the proprietary TLC network infrastructure.

Outsourcing

Entrusting an external party carrying out services and business operations. For example, it can be outsourced the planning, construction and hosting services of a telecommunications management system and, ultimately, the management of the entire telecommunications system.

PaaS (Platform as a Service)

The PaaS (Platform as a Service) represents one of the three Cloud offer service models; through a PaaS offer of a Cloud Provider, the consumer is given the opportunity to distribute applications created on their own, or acquired by third parties on the cloud infrastructure, using programming languages, libraries, services and tools supported by the supplier. The consumer does not manage or control the underlying cloud infrastructure, including network, servers, operating systems, memory, but has control over the applications and possibly the configurations of the environment that hosts them.

Packet-Switched Services

Telecommunications services provided by telcos and long-distance carriers that route packets of data between local area networks (LANs) in different geographical locations to form a wide area network (WAN). Packet-switching services are used to connect multiple LANs into a point-to-multipoint configuration, usually called a multipoint WAN.

Pay-Per-View or PPV

A system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

Pay TV

Subscription TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system is needed.

PCS (Personal Communications Services)

Set of wireless communications functionalities, voice and/or data, which provide similar services such as mobile ones.

Peering

Peering is the voluntary interconnection of Internet networks, that refer to different Internet Service Providers, which allows users to exchange traffic between different networks.

Penetration (market penetration)

It represents the number of people (or subscriber) who acquires goods / services of a particular brand or a particular category, divided by the population where the service is available.

Platform

It's an execution environment that includes hardware, software, application servers and other supporting tools, for the execution of programs.

PON

PON stands for "passive optical network" referring to the optical network composed by non-active components in all stages between the origin (local exchange) and the external sides (subscriber or clients).

POP (Point Of Presence)

The POP is a point of access to the network (router), provided by an Internet Service Provider (ISP), able to route traffic to end users connected to POP.

POTS (Plain Old Telephone Service)

Refers to the basic telephony service, (single-line telephones, fixed-line services and access to public voice telephony network).

Price-cap

Identifies the maximum price limit set by a regulator at which a service /product can be sold.

PSTN (Public Switched Telephone Network)

PSTN, also known as the Public Switched Telephone Network, is the first-generation telephone network and provides basic telephone service.

PTN (Packet Transport Network)

It is a class of equipment that implement natively both SDH and Ethernet technologies, i.e. it is able to transport and switch separately both kinds of traffic. It is used to connect smaller, peripheral Central Offices to larger ones, that is a use case where aside packet traffic (e.g. backhauling of broadband access and mobile sites) also legacy circuit traffic (e.g. voice, 2G backhauling) may be found.

RAN (Radio Access Network)

It is the part of mobile network that implements the radio technologies, comprising data transport functions over air interface and control functions.

RAN Sharing

Is the most comprehensive form of access network sharing. It involves the sharing of all access network equipment, including the antenna, tower and backhaul equipment. Each of the RAN access networks is incorporated into a single network, which is then split into separate networks at the point of connection to the core.

Refarming

Reassignment of frequency band of an operator of mobile networks from one technology to another for optimization reasons (examples: UMTS900 instead of GSM900 or LTE1800 instead of GSM1800).

Remote Feeder

Carrier class IP router that perform the function of collecting and concentrating fixed and mobile network traffic as well as commercial one, for a single Central Office Area. The traffic collected by the Remote Feeders is delivered in double homing to the Feeder nodes, possibly on physically diversified routes.

Remote Unit (RU)

It is a logical node hosting Low-PHY protocol layer and RF processing based on a lower layer functional split.

RNC (Radio Network Controller—counterpart of BSC in GSM)

RNC is the equipment (or node) for the control and aggregation of 3G network.

ROADM

A ROADM (Reconfigurable Optical Add-Drop Multiplexer) is a remotely reconfigurable optical multiplexer capable of switching traffic in a WDM (Wavelength-Division Multiplexing) system. Its use in a transmission network increases the efficiency of the transport allowing to transmit up to over 90 high bitrate channels (today up to 200Gbit/s) on a single pair of fibers.

Roaming

Agreement among two or more Mobile Operators from different Countries, under which Users can use the mobile network of other Operators participating in the agreement.

The roaming service is activated for example when the terminal is used overseas and enables a mobile user to access a different network from the one to which he subscribes.

RoHS (Restriction of Hazardous Substances)

European Directive No. 95/2002 that regulates the use of hazardous substances in electrical and electronic equipment, in order to contribute to the protection of human health and environment.

RTG (Rete Telefonica Generale)

RTG, also known as the Public Switched Telephone Network, is the first-generation telephone network and provides basic telephone service.

SaaS (Software as a Service)

As part of the Cloud offer service models (see also Cloud entry), the SaaS (Software as a Service) model expresses the faculty provided to the consumer to use a supplier's applications and services, operating on a cloud infrastructure. The applications are accessible from different devices through a light interface (e.g. a thin client), such as an email application on a browser, or from programs with a specific interface. The consumer does not manage or control the underlying cloud infrastructure, including network, servers, operating systems, memory, and even the capabilities of individual applications, except for limited configurations intended for him.

SAR (Specific Absorption Rate)

SAR is a measure of the percentage of electromagnetic energy absorbed by the human body when it is exposed to the action of an electromagnetic field at radio frequency (RF). See also EMF limits.

SDH Standard (Synchronous Digital Hierarchy)

The European standard for high-speed digital transmission.

It's a protocol of the physical layer used for multiplexing in time division and the subsequent digital transmission of telephony and data, in geographic networks on optical fiber, electric cable or radio link.

SDN (Software Defined Networking)

Software Defined Networking is a paradigm based on network virtualization whose aim is to transform traditional networks into flexible and intelligent platforms to satisfy in real time the bandwidth requirements and the dynamic nature of digital applications.

SD WAN (Software Defined WAN)

In Networking topic, the SD-WAN (Software Defined WAN) solutions are an innovation of the traditional Wide Area Network solutions and of the Edges IP Networking, developed to offer advanced connectivity services addressed to Business customers. SD-WAN solutions work agnostically with respect to the access technology, the WAN transport network, they use dynamic routing of data on an application basis and in strong integration with Multi-Cloud solutions, to link connectivity to some added-value services such as WAN optimization, application monitoring and advanced security.

Service Exposure

The Service Exposure is an infrastructure to expose functionalities, called API (Application Programming Interface), both to Third Parties (eg Business Partner), both for internal use.

Service Orchestration

Service orchestration means a single centralized business process that can be performed by an orchestrator (e.g. a SW platform) that coordinates the interaction between various services and is responsible for their invocation and composition, as well as the management of transactions between the individual services. Service orchestration is often compared to Service Choreography, which instead makes a decentralized approach to the composition of services, where each of the services participating in the choreography implements a self-consistent process / workflow.

Service Provider

The Service Provider offers to the Users (Residential or Business) that subscribe his offer, a range of contents and services.

SGU (Local exchange interconnection level for telephone traffic)

Local Exchange for telephone traffic carriage, routing and transmission. See also Central Office.

SIP Trunking

Session Initiation Protocol (SIP) Trunking is a service offered by a communications service provider that uses the protocol to provision voice over IP (VoIP) connectivity between an on-premises phone system and the public switched telephone network (PSTN). SIP is used for call establishment, management and teardown.

SL (Distribution Frame level for telephone traffic)

See Central Office.

Shared Access

Shared access to the user's twisted pair with another TLC service provider by using separately voice and non-voice band frequency spectrum. This mode allows keeping voice telephony with an Operator (TIM or others) and ADSL service on the proprietary network of the shared access operator (i.e. not passing over the TIM network but directly through the DSLAM of the operator).

SLA (Service Level Agreement)

Service Level Agreements are contractual instruments through which service metrics are defined (eg quality of service) that must be respected by a service provider (provider) towards their customers / users.

SLU (Sub Loop Unbundling)

It consists in providing access to the local sub-section of the Operator copper network, in particular the section of the network between the user site and the distribution cabinet or an intermediate concentration point.

Small Cells

Small cells are low energy consumption access nodes to the radio spectrum. . Smaller than the antennas, Small Cells are usually used in mobile telephony, both for the coverage of outdoor areas (squares, pedestrian streets, etc.) and for the coverage of indoor hot spots (airports, stadiums, shopping centers, stations, hospitals, university campuses, etc.).

SME (Small Medium Enterprise)

Market segment of small- and medium-size enterprises (from 3 to 50 employees).

SMART CITY

The term Smart City refers to an urban area that uses integrated ICT technologies to optimize resources in key areas: mobility, communication, economy, work, environment, administration and construction. From an infrastructural point of view, the use of available resources on the web improves economic and political efficiency and can allow social, cultural and urban development.

Smartphone

Electronic device that combines the functions of a mobile phone and a handheld computer equipped with a complete operating system.

SMART TV

The term Smart TV identifies the new generation of televisions which allows us to enjoy multimedia audio-video content (movies, TV series, music videos, gaming,...) through an internet connection.

SMS (Short Message Service)

Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

SOHO (Small Office / Home Office)

Market segment consisting of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

SON (Self-Organizing Network)

It is a set of technologies and architectures that allows Operators to introduce, in the context of radio-mobile networks, the technological enablers for the automation of network configuration, optimization and assurance processes.

Switch

- (Telephone switch) Synonymous of Telephone Exchange, i.e. network equipment used to set up and route telephone calls to the number called possibly through other switches. They may also record information for billing and control purposes;
- (Network switch) Data networking equipment able to receive and forward packets using information at layer 2 of OSI (Open Systems Interconnection) model (i.e. hardware addresses of other equipment).

Synchronous

Type of data transmission in which there is permanent synchronization between the transmitter and receiver.

STB (Set-Top Box)

It is a customer device able to receive TV signals from a communication network (such as broadband/ultrabroadband access network, terrestrial broadcast, satellite broadcast, etc) and output them to TVs and other display devices (monitors, projectors, etc.). It may include Conditional Access functions to handle paid content.

Tablet

Portable computer with compact dimensions whose screen can be used to write or give commands with the touch of your fingers or using a specially designed stylus.

TAL (Tele Alimentation for Remote Power Feeding)

Technique for power feeding roadside network equipment (such as ultrabroadband equipment located in street cabinets in Fiber to the Cabinet architecture) from the local exchange.

TCO (Total Cost of Ownership)

The TCO represents the global cost of an asset (eg an IT equipment) during its life cycle. The TCO takes into account both direct costs (hardware costs, network infrastructure, licenses) and indirect costs (management, maintenance, energy consumption).

TDMA (Time Division Multiple Access)

A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information channel at specific intervals and then reconstructs the pieces at the end of the channel.

ToIP (Telephony over IP)

The term is often used as synonymous of VoIP, however it has a wider meaning since it includes advanced telephony services (such as video, messaging, possibly some call handling, etc) beyond the basic voice communication.

TRX

Radio transceivers located in BTS.

UltraBroadBand

Includes all network technologies that offer connectivity from 30Mbit/s to over 1Gbit/s, referring in particular to the peak rate and not to the average available. The definition is related to the characteristics of the fixed and mobile access network. By increasing the capacity and the speed, Ultra Broadband technologies allow quicker access from multiple users to the content available on the net, also on the move, and to take advantage of high quality video up to Ultra HD and interactive gaming.

URLLC (Ultra-Reliable Low-Latency Communication)

URLLC is a set of features that provide low latency and ultra-high reliability for mission critical applications such as industrial internet, smart grids, remote surgery and intelligent transportation systems.

UMTS (Universal Mobile Telecommunications System)

See 3G.

Unbundling

It is the service offered by the incumbent to the alternative operator which consists of the rental of the local loop i.e. the wire connection between the local exchange and the customer's premises, so that the alternative operator is able to connect the twisted pair from the customer to its own equipment.

Universal Service

The obligation to supply basic service at an affordable price, or at special rates solely for subsidized users.

UPS (Uninterruptible Power Supply)

Electrical equipment that provides continuous powering to users in case of power outage.

VAS (Value-Added Services)

Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network. In PSTN and first generation mobile networks the basic service was telephony (switched voice calls, initially analog and later digital ones) while VAS could include data and fax transmission services, as well as call handling features such as call waiting, call forwarding, etc..

As time passed VAS based on call handling grew with further features such as toll free calling, voice virtual private networks, etc. A new class of VAS also developed in mobile networks, including message handling services such as SMS and MMS. In parallel, development of data networks turned data transmission services (initially X25, then Frame Relay, ATM, Ethernet, IP) into basic services of those networks, on top of which there may be VAS such as address translation, data virtual lines and virtual networks, traffic priority, encryption, etc..

A further category of VAS is those based on contents of Service Providers linked to the network, beginning with contents provided on telephony network, going on with contents delivered via SMS (news, meteo, etc) and contents provided via browsing from mobile and fixed terminals, and arriving to video streaming contents.

VDSL (Very - high – data – rate Digital Subscriber Line)

Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with speeds of up to 50 Mbps in downstream.

VDSL2 (Very - high – data – rate Digital Subscriber Line 2)

“2nd generation” VDSL, able to achieve downstream speed in the range of hundreds of Mbps. Actual data rate however is largely dependent upon the distance between customer equipment and network equipment, e.g. for distances of some hundred meters the achievable rate is about 100 Mbps. For this reason, network equipment is typically located in street cabinets, so to be closer to customers. A VDSL2 evolution named eVDSL (enhanced VDSL) yields achievable rates around 200 Mbps; it has been recently deployed in TIM network.

Vectoring

Transmission technology that removes mutual interference (crosstalk) between copper lines bundled in the same cable. Of particular interest is the use on VDSL / VDSL2 / eVDSL lines in view of the growing penetration of ultrabroadband services, which would make interference more perceptible. In this perspective, the use of vectoring allows to maintain the typical performances of the aforementioned technologies. The technology is placed in the ONU apparatus where to be effective it is applied on all the lines of a cable; this means that in case of SLU (Sub Loop Unbundling), that is the presence of ONUs of several operators serving the lines of the same cable, a more complex implementation is required, the MOV (Multi-Operator Vectoring) that coordinates the vectoring of the different ONUs.

Virtualization

An approach to implementation of functionality resorting only to software running on general purpose hardware generally not dedicated, as opposed to approaches resorting also to special purpose and/or dedicated hardware.

VOD (Video On Demand)

TV-program offering on user's request, with payment of a fee for each purchased program (a movie, a soccer match, etc.). Broadcast specifically for cable and satellite TV.

VoIP (Voice Over IP)

A technology that allows transmission of voice communication over an Internet connection or another dedicated network using the Internet Protocol (IP) data networks (such as IP-based LANs, Intranets or the Internet) instead of a conventional phone line.

VoLTE/ViLTE (Voice over LTE / Video over LTE)

A service providing voice and video calls over IP via LTE radio access, controlled by standard ToIP architecture named IMS (IP Multimedia Subsystem). The mated naming VoLTE/ViLTE is used since the service is essentially the same for voice and video, differing only in the type of media streams that are set up. Since it is standard based, it achieves interoperability among user terminals and between terminals and networks.

VPN (Virtual Private Network)

A network designed for a business customer or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

VRAN (Virtual Radio Access Network)

It is an architecture applied in 4G/5G networks which implies a split of the Base Station between a Centralized Unit and a Remote or Distributed Unit. The CU is typically placed in a more centralized site than antennas and deals with baseband signal processing, so also the terminology BBU (BaseBand Unit) is used, while the Remote Unit is left at antenna sites to provide radio coverage and is also termed RRU (Remote Radio Unit). Given this split the CUs may be implemented as Virtual Network Functions on a suitable hardware infrastructure, from which the 'virtual' title.

For the viability of the architecture a key issue is the choice of the partition of Base Station functions between CUs and DUs, which affects the requirements on communication links CU-DU (referred to as midhaul). In the 5G development efforts this issue has been addressed by identifying split options that are candidate for standardization.

VULA (Virtual Unbundling Local Access)

A wholesale service provided by incumbent providers to alternative operators, where the incumbent provides – over its broadband access network – the transport of data traffic (a 'bitstream') between the end customer and an interconnection point where the alternative operator receives said traffic. In TIM's case, the interconnection point is located at local exchange level, aside the OLT (Optical Line Termination) i.e. the head end of optical access network.

WAN (Wide Area Network)

A private network that covers a wide geographic area using public telecommunications services.

WEEE (Waste Electrical and Electronic Equipment)

Waste from electrical and electronic equipment which the holder intends to dispose of as it is faulty, unused or obsolete.

White, gray and black areas

The distinction between white, gray and black areas is relevant for the assessment of state aid to support the development of ultrabroadband networks, in terms of the compatibility of the aid with respect to Community legislation. This classification is contained in the European Union Guidelines:

- white areas are areas without ultrabroadband (UBB) networks (connectivity), where private investors do not intend to invest in the next three years;
- gray areas are areas in which an ultrabroadband (UBB) network (connectivity) is present or will be developed in the next three years by a single private operator;
- black areas are areas in which at least two ultrabroadband (UBB) networks (connectivity) of different operators are present or will be developed over the next three years.

Wi-Fi

Wireless technology enabling data links in a limited area, generally in some hundred meters range, with speed up to tens of Mbps. Typical applications are in homes and offices as alternative to wired LAN, as well as in public services for Internet access, and also to create link between devices (e.g. between a laptop and a smartphone linked to Internet).

Wi – Max (Worldwide Interoperability for Microwave Access)

A technology that allows wireless access to broadband telecommunications networks, initially defined in order to work on ranges up to tens of kilometers and speed in the tens of Mbps.. It was defined by the Wi—MAX Forum, a global consortium formed in 2001 that brings together major companies in the field of fixed and mobile telecommunications and whose purpose is to develop, test and promote the interoperability of systems based on IEEE standards.

WDM (Wavelength Division Multiplexing)

Technology by means of which it is possible to transport on a single optical fiber different flows of information which correspond to distinct and separable wavelengths.

WLL (Wireless Local Loop)

The means of providing a local loop equivalent (e.g. connection from customer premises to local exchange) without the use of wiring, resorting instead to wireless technologies.

WLR (Wholesale Line Rental)

It is a telephony only wholesale service provided by the incumbent to alternative operators, whereby the alternative operator gets an ULL-like service without the need to physically deploy equipment at local exchange sites. It is technically similar to Carrier PreSelection (CPS), and differs from CPS on the commercial side since the end customer is not subscribed to the incumbent's access service, nor billed for it; in this way alternative operators are able to provide to customers both access and traffic services and to produce a single bill covering both services.

WTTX (Wireless To The X)

WTTx is a 4G and 4.5G-based broadband access solution, which uses wireless to provide fiber-like broadband access for household.

xDSL (Digital Subscriber Line)

It is a technology that makes use of standard telephone lines and it includes different categories including ADSL (Asymmetric DSL), HDSL (High-data-rate DSL), VDSL (Very high bit rate DSL) and eVDSL (enhanced Very high bit rate DSL). This technology uses a digital signal at very high frequencies in order to achieve high data transfer rates.

XGS-PON

XGS-PON is an updated standard for Passive Optical Networks (PON) that can support higher speed 10 Gbps symmetrical data transfer and is part of the family of standards known as Gigabit-capable PON, or G-PON.

USEFUL INFORMATION

The 2020 Annual Financial Report can be consulted by accessing the [gruppotim.it/report](https://www.gruppotim.it/report) website.

The Annual Corporate Governance Report and the Remuneration Report can be viewed by accessing the [gruppotim.it/governance/the-system/annual-report](https://www.gruppotim.it/governance/the-system/annual-report) and [gruppotim.it/governance/remuneration/remuneration-report](https://www.gruppotim.it/governance/remuneration/remuneration-report) website.

It is also possible to receive information on TIM at [gruppotim.it](https://www.gruppotim.it) and information on products and services at www.tim.it.

Finally, the following numbers are available:

Free Number 800.020.220 (for calls from Italy) or +39 011 2293603 (for calls from abroad) available for information and assistance to shareholders.

+39 36881 (switchboard) or investor_relations@telecomitalia.it

<https://www.gruppotim.it/en/group/governance/the-system/annual-report.html>

TIM S.p.A.

Registered Office Via G. Negri n. 1 - Milan

Headquarters and Secondary Office in Corso d'Italia 41 - Rome

PEC (Certified Electronic Mail) box: telecomitalia@pec.telecomitalia.it

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