Telecom Italia Finance Group

Consolidated Financial Statements 2020

Audited Consolidated Annual Accounts as at December 31, 2020, which have been authorized by the Board of Directors held on February 22, 2021

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Directors' report

The Business Units

BRAZIL

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

- TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
  - TIM S.A.
    - FIBERCO SOLUÇÕES DE INFRAESTRUTURA LTDA

OTHER OPERATIONS

This Business Unit provides financial assistance to TIM Group companies and the management of liquidity buffer through money market instruments.
As of December 31, 2020:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) is 1.015 million euros.
- The amount of net financial debt is equal to -3.200 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(million euros)	Year 2020	Year 2019
Revenues	**2.933**	**3.937**
EBITDA	**1.400**	**2.444**
EBIT	**469**	**1.290**
Profit (loss) before tax from continuing operations	332	999
Profit (loss) for the year	**288**	**791**
Profit (loss) for the year attributable to Owners of the Parent	184	519
Capital expenditures	**661**	**873**

Consolidated Financial Position Data

(million euros)	31/12/2020	31/12/2019
Total assets	**12.263**	**14.812**
Total equity	**7.303**	**8.780**
Attributable to Owners of the Parent	6.070	7.100
Attributable to non-controlling interests	1.233	1.680
Total liabilities	**4.960**	**6.032**
Total equity and liabilities	**12.263**	**14.812**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-2.353**	**-1.692**

Headcount

	31/12/2020	31/12/2019
Number in the Group at year end	9.420	9.699
Average number in the Group	8.718	9.059

Highlights

The year 2020 was marked by the pandemic of Covid-19, which imposed great challenges on society as a whole, with impacts on public health and economics. Measures to combat the pandemic through isolation and social distance have substantially affected the daily lives of our customers and our operations, with repercussions on marketing, customer service and the management of our network. As challenging as this context was, the Group proved to be antifragile, reinvented itself and presented solid results at the end of 2020.

Considering the Brazil Business Unit, the capacity to act quickly and assertively, taking advantage of opportunities brought by the changes imposed by the external environment and keeping the focus on executing the strategy were the hallmarks of 2020. This combination made it possible to deliver the main goals defined for the year, even in a highly challenging scenario and many uncertainties.

The pandemic impacts were mainly concentrated at the end of the first quarter and throughout the second, and imposed (i) the closing of points of sale, with a reduction in our commercial activity; (ii) transition to a 100% virtual work model; (iii) alteration of voice and data traffic on our network; (iv) change in the relevance of telecommunications services for customers' lives; and (v) less economic activity and income availability. To manage this situation and turn it into an evolution, for the Group, it was necessary to focus on execution, with agility in decision making, prioritization and digital courage.

The Group response was based on supporting its employees, customers and society in general, carrying out, among others, the following measures:

- For employees: 99,9% of employees were allocated under the teleworking scheme, supported by digital tools that the Group already used. In addition, medical and psychological support was made available to employees, along with a participatory approach to decision making regarding return to the offices.

- For customers: adjustments were made to our network, prioritizing the quality and continuity of services in residential areas and with the presence of health institutions. We expanded the digital channels, whether for sale or for customer service, and completed our support, with flexible collection rules and payment terms.

- For society: in a joint effort with the other operators, in Brazil the Group provided a tool to monitor the displacement of the population through the cities, which made it possible for public entities to monitor the levels of social isolation. The services provided by the Ministry of Health through the application of the Sistema Único de Saúde - SUS and Caixa Econômica Federal, for emergency assistance were encouraged and prioritized. Together, the operators also ran national campaigns to clarify and encourage the adoption of disease prevention measures.

On December 15, 2020 has been 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., has 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 during 2021, is in any case subject to the fulfilment of some conditions precedent provided for in the agreements and the authorisations 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 the NPV of the Take-or-Pay Data Transmission Capacity Contracts. TIM Brasil will participate in the transaction with an investment of about 7,3 billion reais (about 1,2 billion euros) to be paid at closing and 476 million reais related to the portion of TIM Brasil in the 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.

The transaction, as of its completion, will add value not only to its Brazilian subsidiary but to the whole Group and its shareholders as it will accelerate its growth and increase operating efficiency through relevant synergies. Furthermore, positive effects are also expected for customers, as the transaction is likely to improve the users' experience and the quality of services offered. 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 vehicle ("FiberCo") attracting a strategic partner that will become a shareholder of the FiberCo. The FiberCo will operate in the wholesale market and providing fiber connectivity services for last-mile and transport network, for all market operators, with TIM as an anchor customer. This transaction aims to accelerate the growth of the residential broadband business and unlock the value of TIM's infrastructure.

In 2020 the Parent's activities continue to be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.

THE MARKET

Despite the positive outlook for 2020, the year has been substantially impacted by the atypical and unpredictable new Covid 19 pandemic, that brought, in addition to an immeasurable human onus, an expressive burden on European, Brazilian and the World's economy.

As to the international scenario, the beginning of the Covid-19 vaccination in most countries, which is perceived as the beginning of the return to normalcy, coupled with the election of Joe Biden as the President of the United States, possibly due to a perspective of reducing international tensions, although the expectation of an agreement in the House of Representatives concerning the new tax package has not yet materialized, are factors that weight in to an increase in projections for global economy growth, which posted a strong recovery in the 3rd quarter of 2020. The GPD of the countries part of the Organization for Economic Co-operation and Development (OEDC) has fallen 10,5% in the second quarter however it has increased 9% in the third. IMF has reviewed its projection for global economy growth in 2020 from -5,2% to -4,4%.

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance in 2020:

- **Consolidated revenues** amounted to 2,9 billion euros, down by 25,5% on the 2019.
- **EBITDA** amounted to 1,4 billion euros, down by 42,7% on 2019.
- **Operating profit (EBIT)** was 0,5 billion euros, down by 63,7% compared to 2019.
- The **Profit for the year attributable to Owners of the Parent** amounted to 184 million euros (519 million euros for the year 2019).
- **Capital expenditures** in 2020 amounted to 661 million euros (873 million euros in 2019).
- **Net financial debt** amounts to -2.353 million euros at December 31, 2020, down of 661 million euros compared to the end of 2019 (-1.692 million euros).

Consolidated operating performance

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

	Other operations (millions of euros)		Brazil Business Unit (millions of euros)		(millions of reais)		Changes	
	2020	2019	2020	2019	2020 (a)	2019 (b)	Amount (a-b)	% (a-b)/b
Revenues	**—**	**—**	**2.933**	**3.937**	**17.268**	**17.377**	**-109**	**-0,6**
EBITDA	**-7**	**-7**	**1.407**	**2.451**	**8.282**	**10.820**	**-2.539**	**-23,5**
EBITDA Margin			48,0	62,3	48,0	62,3		17,5 pp
EBIT	**-7**	**-7**	**476**	**1.297**	**2.801**	**5.726**	**-2.926**	**-51,1**
EBIT Margin			16,2	33,0	16,2	33,0		16,6 pp
Headcount at year end (number)	**11**	**10**			**9.409**	**9.689**	**-280**	**-2,9**

	Year 2020	Year 2019
Lines at period end (thousands)	51.433	54.447
ARPU (reais)	24,9	23,7

REVENUES

Revenues in 2020 were entirely related to the Brazil Business Unit and amounted to 17.268 million reais (2.933 million euros), down by 0,6% on 2019.

Revenues from services totaled 16.665 million reais (2.830 million euros), an increase of 68 million reais (-930 million euros) compared to 16.597 million reais (3.760 million euros) in 2019 (+0,4%).

Revenues from product sales came to 603 million reais, or 102 million euros (780 million reais or 177 million euros in 2019). The decrease reflects the impact of shutdown of at between two and 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 sales 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.

Mobile Average Revenue Per User (ARPU) in 2020 was 24,9 reais (4,2 euros), up 5,1% compared to the figure posted in 2019, thanks to the general repositioning towards the postpaid segment and new commercial initiatives aimed at promoting data use and the average spend per customer.

Total lines in place at December 31, 2020 amounted to 51,4 million, a decrease of 3,0 million compared to December 31, 2019 (54,4 million). This variation was mainly driven by the prepaid segment (-3,4 million), partially offset by growth in the postpaid segment (+0,4 million), in part due to the consolidation underwayin the market for second SIM cards. At December 31, 2020, postpaid customers accounted for 42,4% of the customer base, an increase of 3,0 percentage points on December 2019 (39,4%).

	Year 2020	Year 2019
(millions of reais)		
Net revenues	**17.268**	**17.377**
Service revenues	16.665	16.597
Mobile services	15.610	15.648
Fixed services	1.055	949
Product revenues	603	780
(thousands)		
Lines at period end	**51.433**	**54.447**
Average Market Lines	**52.252**	**54.962**
(reais)		
Mobile ARPU (mobile services/average market lines/months)	**24,9**	**23,7**

EBITDA

EBITDA in 2020 totaled 1.400 million euros, of which 1.407 million euros attributable to the Brazil BU.

Considering Brazil BU, EBITDA in 2020 amounted to 8.282 million reais (1.407 million euros), down by 2.538 million reais (-1.044 million euros) year-on-year (-23,5%).

EBITDA in 2019 benefited from non-recurring net income of 2.760 million reais, from the balance of 3.024 million reais of income related to the recognition of tax receivables 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, as well as for charges related to corporate reorganisation/restructuring.

EBITDA in 2020 is affected by non-recurring expenses of 27 million reais mainly related to agreements and the development of non-recurring projects.

EBITDA net of the non-recurring component (Organic EBITDA), grew by 3,1% and is calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	Year 2020	Year 2019	Year 2020	Year 2019	Amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
EBITDA	**1.407**	**2.451**	**8.282**	**10.820**	**-2.539**	**-23,5**
+/- Non recurring expenses/(income)	5	-625	27	-2.760	2.787	
= Organic EBITDA	**1.411**	**1.826**	**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 related EBITDA margin stood at 48,1%, up in organic terms by 1,7% compared to 2019.

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

	(millions of euros)		(millions of reais)		
	2020	2019	2020	2019	Change
	(a)	(b)	(c)	(d)	(c-d)
Purchase of goods and services	1.070	1.451	6.298	6.405	-107
Employee benefits expenses	236	323	1.392	1.425	-33
Other operating expenses	318	521	1.874	2.301	-428
Change in inventories	-7	-5	-43	-20	-23

EBIT

EBIT totaled 469 million euros (1.290 million euros in 2019), a decrease of (821) million euros.

Considering Brazil BU, EBIT for 2020 amounted to 2.801 million reais (476 million euros).

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, amounted to 2.828 million reais (480 million euros), with an EBIT margin of 16,4% (17,1% in 2019), and was calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	Year 2020	Year 2019	Year 2020	Year 2019	Amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
EBIT	**476**	**1.297**	**2.801**	**5.726**	**-2.926**	**-51,1**
+/- Non recurring expenses/(income)	5	-610	27	-2.760	2.787	
= Organic EBIT	**480**	**688**	**2.828**	**2.966**	**-138**	**-4,7**

PROFIT (LOSS) FOR THE YEAR

The details are as follows:

(million euros)	Year 2020	Year 2019
Profit (loss) for the year	**288**	**791**
Attributable to		
Owners of the Parent	184	519
Non-controlling interests	104	272

CAPITAL EXPENDITURE

All capital expenditure is referred to the Brazil Business Unit. The BU posted capital expenditures in 2020 of 661 million euros, decreasing by 212 million euros on 2019 (873 million euros). Excluding the impact of changes in exchange rates (-218 million euros), capital expenditure rose by 7 million euros, targeted mainly at the expansion of mobile ultra-broadband infrastructure and the development of the fixed broadband business of TIM Live.

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** decreased by 247 million euros as a result of changes in foreign exchange rates applicable to the Group's Brazilian operations. Further details are provided in the Note "Goodwill".

- **Other intangible assets** decreased by 614 million euros representing the balance of the following items:
  - Capex (+193 million euros)
  - Amortization charge for the year (-308 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of -499 million euros), of which -496 related to exchange rate differences..
- **Tangible assets** decreased by 669 million euros representing the balance of the following items:
  - Capex (+456 million euros)
  - Depreciation charge for the year (-430 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of -696 million euros), of which -691 related to exchange rate differences.
- **Rights of use third-party assets:** decreased by 389 million euros representing the balance of the following items:
  - Investments and increases in finance leasing contracts (+520 million euros)
  - Amortization charge for the period (-202 million euros)
  - Disposals, exchange differences and other changes (for a net balance of -708 million euros) of which -460 related to exchange rate difference.

Consolidated equity

Consolidated equity amounted to 7.303 million euros at December 31, 2020 (8.780 million euros at December 31, 2019), of which 6.070 million euros attributable to Owners of the Parent (7.100 million euros at December 31, 2019) and 1.233 million euros attributable to non-controlling interests (1.680 million euros at December 31, 2019).

Cash flows

The details of Group cash flows are as follow:

(million euros)	Year 2020	Year 2019
Cash flows from (used in) operating activities	1.156	1.073
Cash flows from (used in) investing activities	-594	474
Cash flows from (used in) financing activities	-215	-257
Aggregate cash flows	**347**	**1.290**
Net foreign exchange differences on net cash and cash equivalents	-151	-12
Net cash and cash equivalents at beginning of the year	**2.649**	**1.359**
Net cash and cash equivalents at end of the year	**2.995**	**2.649**

Net financial debt

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

(million euros)	**Other operations**		**Brazil Business Unit**	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current financial liabilities	1.782	1.747	1.256	1.669
Current financial liabilities	324	397	431	499
Total gross financial debt	**2.106**	**2.144**	**1.687**	**2.167**
Non-current financial assets	-1	-1	-25	-33
Current financial assets	-3.461	-3.418	-778	-658
Net financial debt as per ESMA	**-1.356**	**-1.276**	**885**	**1.476**
Non-current financial assets	-1.844	-1.885	-38	-7
Net financial debt	**-3.200**	**-3.161**	**847**	**1.469**

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

Main commercial developments of the business units of the Group

Brazil

In 2020, TIM Brazil has evolved its positioning strategy as a relevant protagonist player in the Brazilian market. The Group continued the customer base remix on the consumer mobile market, migrating customers from single service daily plans to recurring weekly/monthly plans. The Group aggregated more value-added services in terms of variety and relevance to our customers (e.g. mobile financial services), evolving service plans offers, leveraging leadership in the 4G network. TIM Live has been increasing its coverage and customer base, while in the B2B market IoT initiatives are stronger in the agribusiness and new successful partnerships opportunities have arisen.
Communication and Brand positioning: we strengthened our brand credibility. Launched a new tag line that represents our mission as a company "image the possibilities" and a new spokesperson the singer "Iza" - Women of the year in 2020. The evolution in our communication format and content allowed TIM to win the prestigious Top of Mind prize from "Folha de SP" (one of the main and most credible media groups in Brazil).
Mobile offers: we renewed our offers in all segments following the "beyond connectivity" approach to increase distinctiveness while avoiding commoditization. On hybrid plans, we leveraged our partnership with C6 (digital bank) bundling mobile financial services to mobility. The partnership was then extended to all segments. On the pre-paid, we introduced a new and strong loyalty program with gamification and mobile advertising features. And finally, on post-paid we revamped "TIM Black" with a broader portfolio of entertainment services (from Netflix only to HBO Go and Youtube Premium) and premium caring services, TIM Concierge.
Customer Experience: we are continuously working to increase our customers experience and satisfaction through the use of technology. In this regard, the evolution of AI solutions and our digital channels are fundamental. In 2020, TIM launched "Tais" its cognitive assistant and the penetration of app Meu TIM has been increasing YoY.
Sales channels: in 2020 we focused on channel productivity and channel remix, from volume to value. Nonetheless, during the Covid-19 outbreak, especially at the outset, the priority shifted to sustain our sales channels. More recently, we have reinforced our capillarity on critical markets like 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're present in 31 cities with a customer base growth of 14% in 2020. TIM Live also innovated launching the first 400Mbps offer in Brazilian market and was recognized by Estadão newspaper for the 5th time as Brazil's best broadband service.
Corporate: we consolidated our strategy "Leaders with Leaders" in agribusiness and launched the first IoT marketplace for B2B in Brazil promoting IoT solutions through partnerships. We also launched the FCA partnership for connected cars and for industry and mining we are developing a private LTE solution in order to address mission critical use cases.

Main changes in the regulatory framework

In Luxembourg, a 12-month grace period has been granted for the application of the European Single Electronic Format (ESEF) requirements in relation to annual financial reports, previously applicable to financial years beginning on or after January 01, 2020.

Brazil

<u>Revision of the model for the provision of Telecommunications services</u>
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 the 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 10.402 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 9.612/2018 ("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.

700 MHz and Analog TV switch off
In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1,7 billion reais (0,3 billion euros at the average exchange rate for the period), and with additional commitments of 1,2 billion reais (0,2 billion euros at the average exchange rate for the period, in four annual installments, adjusted for inflation) as a contribution to the consortium established by the tender ("EAD") for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais, corresponding to 63 million euros at the average exchange rate for the period) was made in April 2015 and another two payments (for a total of 860 million reais, corresponding to around 146 million euros at the average exchange rate for the period) were both made in January 2017, while the final installment (142 million reais, corresponding to 39 million euros) was duly paid in January 2018.
Since 2016, the spectrum has been freed up for mobile operation and in June 2019, all municipalities became available meaning that 100% of Brazilian population can be covered by LTE on 700 MHz.
Throughout 2020, EAD is expected to fulfill the remaining auction obligations, concluding the relocations of broadcasters and interference solutions provisions regarding the completion of the switch-off process and the spectrum full availability to mobile operators.

"Marco Civil da Internet" and Network Neutrality
The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law 12.965/2014, defined network neutrality as the "duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application". On May 11, 2016, Brazilian Presidential Decree 8.771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.
In August 2017, the oversight board ("GS") of the Administrative Council for Economic Defense (CADE) handed down a decision in favor of Brazil's mobile TLC providers, which excluded the imposition of fines in relation to a preliminary investigation into alleged unfair competition in "zero rating" offers and promotions on Internet data consumption. The oversight board heard the depositions of various parties, including the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel, and concluded that Internet business models should not be banned ex-ante, but instead should be monitored comprehensively to prevent any unfair competition outcomes.

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of ex-ante obligations (Plano Geral de Metas de Competição – PGMC).
Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP).
In July 2018, Anatel published the new PGMC revising some points and defining two new markets: (i) interconnection for mobile services; and (ii) high capacity data transmission.
TIM Brasil has been identified as the SMP operator on the: (i) mobile network terminations; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).
The measures adopted for the SMP operator on these markets include the obligation to offer national roaming services for non-SMP operators. The obligation for vertically integrated landline operators with an SMP to access the copper network (e.g.: leased lines, bitstream and full unbundling) was maintained.
Since 2016, fixed interconnection rates have been based on a cost-oriented approach. In December 2018, Anatel published the corresponding Acts No. 9.918/2018 and 9.919/2018, which determined the specific

reference rates effective as of February 2020. Before coming into force, Anatel started revision of this acts and, on 24 February 2020, published the new Acts No. 986/2020 and 987/2020.

Revision of Service Quality Regulation
In December 2019, Anatel approved the new Telecommunications Services Quality Regulation (RQUAL), based on responsive regulation. By this new model, quality is measured based on three indicators - Quality of Service Index, Perceived Quality Index and User Complaint Index – and it classifies operators into five clusters (A to E).
On the basis of responsive regulation, Anatel will be able to adopt measures according with the specific case, such as consumer compensation, adoption of action plan or adoption of precautionary measures in order to ensure the improvement of quality standards.
The new regulation is expected to entry into force by 2021 and, until the working group formed by Anatel, operators and the quality assurance support entity (ESAQ) define the goals, criteria and reference values of indicator, Anatel still remain monitoring the old indicators that maintain similarity with the new ones established in the new RQUAL. The criteria and reference value shall be determined in the coming 12 months as from the Working Group launch.

Strategic Digital Transformation and the Internet of Things
In March 2018, the E-Digital Decree (Decree 9.319/2018) was published in order to identify around 100 strategic actions aimed at boosting competition and on-line productivity levels in the country, while raising connectivity and digital inclusion levels. The actions seek to address the main strategic issues for the digital economy, including connectivity infrastructure, the use and protection of data, IoT, and cyber-security.
In June 2019, the Decree on the National Plan for Internet of Things (Decree 9.854/2019) was published in order to regulate and encourage this technology in Brazil. It refers to IoT as "the infrastructure that integrates the provision of value-added services with physical or virtual connection capabilities of things with devices based on existing information and communication technologies and their evolution, with interoperability. The decree lists the following subjects as required to further support National Plan for Internet of Things: (i) science, technology and innovation; (ii) international insertion; (iii) vocational education and training; (iv) connectivity and interoperability infrastructure;(v) regulation, security and privacy; (iv) economic viability.
In order to develop an IoT environment in the country, Law 14.108/2020 was sanctioned. This Law exempts FISTEL (an administrative tax collected by Anatel) from the base stations and equipment that integrate the machine to machine (M2M) ecosystems for 5 years and, also, extinguishes the prior licensing. The definition and regulation of M2M communication systems shall be established by Anatel.

Data protection
On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13.709/2018).
The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company's global turnover of the previous financial year.
In December, 2018, Provisional Measure 869/2018 passed by the former Brazilian president amended Law 13.709 to create the National Data Protection Authority (ANPD), within the structure of the Presidency of the Republic, which implies in a larger control by the State and to, among other topics, extend to 24 months the entry into force of the Law (August 2020), by which date, August 2020, all legal entities will be required to adapt their data processing activities to these new rules.
In July 2019, Provisional Measure 869/2018 was converted into law 13.853, keeping the ANPD, as a federal public administration body, as part of the Executive Branch, with transitory nature, for at least 2 years, when it may be transformed, by Executive Branch, in an entity of the indirect federal public administration.
In June 2020, the Bill of Law No. 1.179/2020 was converted into Law No. 14.010/2020 that postponed the date to become effective the General Data Protection Law, only for the provisions related to fines and penalties, to August 2021. The other provisions of the law are in effect as from August 2020, as originally proposed. Additionally, Decree No 10.474/2020 (Data Protection National Authority) entered into force in August 2020, creating ANPD (Autoridade Nacional de Dados Pessoais) which is responsible, among others, for developing guidelines for the National Policy for Data Protection; supervise companies and apply sanctions; issue regulations and procedures on personal data protection.

Competition

Brazil

The macroeconomic scene in 2020 witnessed an uncommon and harsh paradigm change, leading to new behavior and consumption habits. As in many countries, lockdown protocols negatively affected the economy, increasing uncertainty, postponing investments, reducing revenues, employment, and taking lives. On the other hand, digital transformation was taken to another level, placing telecom companies in the spotlight,

empowering and connecting people, pushing advanced services such as food and drugs delivery, content streaming and video calls.
Although some political uncertainty still exists, especially regarding the ability of the government to fulfill some of the economic liberal agenda as administrative and tax reforms, as well as to manage the Covid-19 pandemic impacts, the Brazilian economy points to recovery. Employment, which displayed poor results as in 2016 recession, is back to levels seen in early 2020. Despite the negative growth rate expectations for Brazilian GDP in 2020, economic recovery is estimated to surpass the 3% mark in 2021. Endorsing the positive mood, Bovespa Index ("IBOV" – Brazilian stock market index) shows the market confidence by reaching pre-pandemic results.
Despite improving financial indicators, economic conditions are still challenging, as budget deficit and growing debts (for central government, Federal States and municipalities) present a risk that can only be addressed by more structural reforms that need the congress approval. Present government acknowledges that need and maintain reforms as a top priority together with privatization of some companies (such as Eletrobras, Telebras, Correios, and DataPrev) to put the economy growing consistently for the coming years and improve investments in infrastructure.
The mobile telecommunications sector has seen some rationality prevail in the market and in competition, with service providers remaining focused on the development of the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies. At last but not least, the reduction from 4 to 3 main mobile players and the raise of infrastructure companies may lead to a better capital allocation and investment return.
In the Prepaid segment, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet different needs of customers (unlimited voice calls or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability (together with churn reduction) and ARPU growth. The market Prepaid customer base has decreased -4,6% YoY in November 2020.
In the Postpaid mobile segment, growth in the customer base was driven primarily by the growth of the hybrid Controle segment (especially from the migration of former Prepaid customers), although "pure" Postpaid lines has also presented some growth. Based on offer segmentation strategies that introduce distinctions in the use of data services (such as the unlimited use of data for specific apps, such as WhatsApp, Facebook, Twitter, Netflix, etc.), as part of a "More for More" policy that is designed to provide greater price stability and effectively repositioning the customer base towards higher value deals (voice + data + content). The market total Postpaid (excluding M2M) customer base has grown +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 have covered 98% of Brazilian population with 4G (up to November 2020, latest data available), with the top three players providing an average 4G availability above 79% (according to OpenSignal July/2020 report).
The fixed broadband market posted growth of +10,1% YoY in November 2020, driven mainly by smaller market players (+39,6% YoY), which tend to offer cheaper services mainly in areas in which incumbents have limited infrastructure. As consequence, traditional incumbents are facing a high decrease in their customer base. Penetration rates across the population are still quite low (approximately 51% of households) when compared to several countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic scenario.
In this context, since 2017, TIM has adopted a business strategy for TIM Live to leverage its fiber network infrastructure, offering ultra broadband internet services, through FTTC and notably FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. Therefore, TIM Live has been increasing its footprint reaching 32 cities by the end of November 2020, which is expected to continue growing in the following years. TIM Live had a customer base of 640+ thousand users (a 15,4% YoY growth). In order to reach a faster and smarter footprint expansion, TIM is organically evolving to carve out an Open Infra Vehicle together with an investor partner and leveraging through its last mile Fiber assets.

Research and development

Brazil

The Architecture & Innovation Technology department 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&D
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 and future internet applications;
- 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 LTE implementation;
- 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 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.

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" solution, optimizing network resources and costs. At present, this is the largest agreement for RAN sharing worldwide and it supplies 5G 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 backhaul. Currently, 4G RAN Sharing is based on three national partners, expanding the benefits and efficiency of this technical model. Following tests and the consequent activation of energy saving functions and solutions, according to the access technology (2G, 3G and 4G) and coverage conditions, it showed a reduction of up to 10%.

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-IoT 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 SIM) 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 2020, 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 Brasil'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 Gateway). This project is an opportunity to define a common set of operator requirements and coordinate with companies that manufacture devices, which have wider and more flexible capacities and are cheaper; in June 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.

Human resources

Brazil

The Human Resources Department is structured to ensure the best practices in people management, to support the evolution process at the Company, aligned with the technological transformations and business challenges that include the commitment to sustainability and promotion of diversity and inclusion.
It is fundamental to rely on an engaged team to exceed challenges and fetch better results. At TIM, the relationship of transparency and respect with all levels strengthens the pride of belonging and the clarity about our direction. These factors are differential in the development of our employer brand.
In 2020, we achieved another record of adhesion (97%) in the Climate and Engagement Survey.
This growth reflects our commitment to listening to people and the credibility of the Climate Management process at TIM.
Some practices were highlighted in the annual Climate and Engagement Survey, which showed significant results, such as the increase in general favorability by 3 p.p. reaching 84%, and placing TIM 12p.p. above Mercer's Global Telecom Market, a consulting partner responsible for research.
Among the dimensions highlighted in the comparison with 2019, the biggest developments (equal to or greater than 7 p.p.) are in Process Improvement, Healthy Work Environment, Career and Ability to Achieve Goals. This confirms that the actions taken during the year 2020 were perceived positively by our employees.
The results of the Climate and Engagement Survey at TIM in 2020 consolidate the team's high engagement and also indicate that in 2021 we need to focus on specific areas that are not on the same level as TIM and that there is an opportunity for improvement. In addition, it will be necessary to investigate the most critical areas in recognition and reward, in order to act on people's perception of perceived remuneration.
The culture of integrity and attractive careers also stand out among the factors most recognized by our team, reflecting the high engagement and success of actions such as TIM Talks Experience 2020 and Diversity and Inclusion campaigns.

People
The Brazil BU ended 2020 with 9.409 employees across Brazil. The employees, with their stories and knowledge, represent the intellectual capital of the Group and are the engines of business development.
Approximately 70,1% of the employees have completed higher education or attend college and 10,0% have postgraduate degrees. The numbers and results show that TIM has a diverse and highly-qualified staff to meet its challenges. The workforce is complemented by 68 interns and 234 young apprentices.

Development and Training

The Group employees have access to a well-structured training and development offer to evolve within the company and build a successful career. The Brazil BU invested more than 10,8 million reais (1,8 million euros) in training and development of its employees in 2020.
To guide the careers of its employees, the Group identifies and monitors individual performance to guide activities with more assertiveness. The Company evaluates the dedication and differentiated performance of its professionals through different performance management tools and encourages and provides opportunities for development and learning.
Throughout the year 2020 we focused on supporting the company's evolution and transformation towards the TELCO digital model, with a specific focus on the development of new capabilities, necessary to achieve the objectives of the company's strategic and industrial plan. The objective has also been to strengthen and disseminate digital and social learning approaches, consistent with the accelerations brought about by the pandemic situation, as well as to develop specific programs for selected audiences and themes. Thus, we are able to offer our employees the best training and distance learning initiatives.
Among the programs that stood out the most, are:

- TIM Talks: We offer all employees a 4-week program of innovative learning experiences, covering topics related to business, technology, environment, health, diversity and inclusion, skills of the future, among others, also enabling society to participate with events open to the outside.
- Internship Program: To attract the best students in the market and train our future professionals, the Internship Program brings students with energy, determination, initiative, a sense of team and, especially, interest in challenges and innovation. The program has an important focus on the assumptions of diversity and inclusion, in the context of TIM's ambitions and plans in ESG matters and is structured through a dedicated journey of training and development initiatives, including initiatives with Job Rotation and Job Shadowing, among others.
- Support Plan in the context of the Covid-19 Pandemic: Throughout 2020, due to the pandemic of the new coronavirus, the Group carried out training actions focused on topics such as mental, emotional, self-care, well-being and we also provide integration content in digital format. In addition, we have transformed 100% of our training actions into distance learning.
- Onboarding: Considering the digital transformation processes that the Group started a few years ago, accelerated by the needs of the pandemic, a new Onboarding program was designed to engage and prepare new employees for day-to-day activities. The main changes were the creation of a new brand, the inclusion of new targets, the digitization of 100% of the contents and a new governance model. The new program will be fully implemented in the first quarter of 2021.

Because we believe that diversity and inclusion are essential for valuing and engaging people, and play a fundamental role in the innovation process, we reinforce our position and commitment to the theme through the construction of diversity and inclusion policies, programs and initiatives, aligned with the business strategy, organizational culture and appreciation of the contribution of each employee.
In 2020, the Diversity and Inclusion Program included an annual calendar of actions, based on the UN calendar; creation of the diversity committee, formed by senior leadership; launching of affinity groups, formed by employees from all levels, areas and regions; who work together in the design and implementation of inclusive actions for the pillars of gender, LGBTI + people, race, generations and people with disabilities. A Diversity Policy was also launched with premises and guidelines for the people management processes and reinforcement of the expected behaviors and behaviors of employees, partner companies, suppliers and other stakeholders in the value chain. Because it believes that information and knowledge is the first step in breaking paradigms and prejudices, the 2020 diversity program included an integrated communication and training plan for TIM leaders and professionals, with more than 40 actions and 2,300 trained employees. TIM Convida was also launched, a 100% digital event and open to society, with the aim of connecting TIM with companies, academia, specialists and society in general in an ecosystem of dialogue and reflection on the theme. In all, 6 editions of the event were held with over 50 thousand views on Youtube.

<u>Long Term Incentive Plan</u>
The Long-Term Incentive Plan is intended to grant shares or options for the purchase of shares of TIM SA to employees of the Company and its subsidiaries, thereby seeking to promote the expansion, achievement and success of the corporate goals, and ensuring the alignment of interests of shareholders and management.
On August 5, 2011, April 10, 2014 and April 19, 2018, the Annual Shareholders Meeting of TIM Participações (now TIM SA) approved the long-term incentive plans; “Plan 2011-2013”, “Plan 2014-2016” and “Plan 2018-2020”, respectively, grant to the high management and to those who occupy key positions at the Company and its subsidiaries.

Social Responsibility

Brazil

The Brazil BU is a pioneer in Environmental, Social & Governance (ESG) topics in the Brazilian telecommunications industry. TIM has been part of B3's Corporate Sustainability Index (ISE-B3) for 13 years and is the telecommunications company present in the index for the longest time.
Since 2011, TIM voluntarily joined the Novo Mercado, the highest Corporate Governance Level of the Brazilian Stock Exchange, in addition to being the first and only telephony operator awarded as Pró-Ética (Pro-Ethics) by the Controller General of Brazil ("CGU").
As a signatory of UN's Global Compact since 2008 and member of the Human Rights Working Group of the Brazilian Global Compact Network since 2015, TIM develops projects linked to the Sustainable Development Goals (SDG) and recognizes data privacy, safe internet and access to information and freedom of speech as essential and non-negotiable rights.
TIM responds to the Carbon Disclosure Project ("CDP"), the largest climate change data base in world, providing information on greenhouse gas, since 2010 and TIM also records its emissions information in the Public Emissions Registry of the Brazilian GHG Protocol Program.
For the past 12 years, TIM has published the Sustainability Report to its stakeholders with information on the main financial and non-financial results, according to the Global Reporting Initiative (GRI) standards. The report is assured by an independent third party.
Our Policies on Social Responsibility, Human Rights, Diversity, Environment, Climate Change Management, Corporate Risk Management, Anti-Corruption, Relationship with Suppliers, Occupational Health and Safety, among others, are publicly available to all our stakeholders.
For its strong actions on ESG topics, TIM is included in domestic and international indexes and ratings, such as the Corporate Sustainability Index (ISE-B3), The Carbon Efficiency Index (ICO2-B3), ESG Brazil Index (S&P/B3), CDP Brazil Climate Resilience Index (ICDPR-70), FTSE4GOOD Emerging Markets, FTSE4GOOD Latin America, MSCI ACWI ESG Leaders, MSCI Emerging Markets ESG Leaders, among others, in addition to being certified by ISO 14001 since 2010.

<u>TIM Institute</u>
Founded in July 2013, Instituto TIM (www.institutotim.org.br) has the mission of providing democratic access to science, technology and innovation in order to foster human development in Brazil. More than 700.000 people in all Brazilian states and the Federal District have benefited from the Institute's education and inclusion projects, some have also been internationally awarded (Governarte Award - BID 2015).
During 2020, Instituto TIM's projects have been adapted so that they could continue, despite the challenging Covid-19 scenario - The Instituto TIM-OBMEP Scholarships continued to support the 200 medal winners of the Brazilian Public School Math Olympics (OBMEP in Portuguese), who entered public universities and come from low-income families. In 2020, 50 new students have been selected to receive the scholarships. The aid to students is the result of the partnership between Instituto TIM and the National Institute for Pure and Applied Mathematics (IMPA).
Academic Working Capital (AWC) is the entrepreneurial education program developed by Instituto TIM that offers mentoring and financial support to college students who want to turn their course conclusion papers into technology-based businesses. In its 6th edition, AWC brought novelties and a new evaluation criterion: the project's contribution to Brazil's challenges after the Covid-19 pandemic. Other differences were the transformation of in person workshops into virtual meetings and a new calendar, with activities held from August to May 2021, when the Investment Fair will take place - date of the beginning of the program's 2021 edition. Since its inception in 2015, about 180 projects from 470 university students have been supported by AWC and 50 startups have been created. Some of them turned out to be successful businesses, such as Mvisia, a startup participating in the program's first edition, which in 2020 had 51% of its capital stock acquired by WEG, a Brazilian multinational company manufacturing electronic devices.
Science education is one of Instituto TIM's lines of action. Through its partnership with GaratéaISS, a science and aerospace education program for children, three Brazilian projects have already been sent to the International Space Station (ISS), supported by NASA. The initiative makes Brazil the first country outside North America to participate in the Student Spaceflight Experiments Programs. The winning experiment of the 2019/2020 Garatéa was executed by students from the state of Mato Grosso, with the goal of discovering if a person who is lactoseintolerant could eat this product in space using medicines. The project has been sent to the Space Station in December on board of SpaceX; The Bateria do Instituto TIM (Institution TIM's percussion band) - project that fosters the inclusion of children, young people and adults, many of whom are disabled, through music - continued in 2020 in a virtual format, named "Percussion Band at Your Home". The initiative enabled rehearsals to continue through video classes sent every week to the students. To close the activities for the year and contribute to the families' Christmas - most of them in vulnerability situation - the members and technical team received food boxes.
TIM Tec, Instituto TIM's free online courses program, registered 100.000 registrations in the platform and a 200% increase in the number of accesses in the first four months of 2020, compared to the same period in

2019. The platform gained more visibility as the search for distance learning increased during the pandemic. TIM Tec is now part of the Aprendendo Sempre initiative, a coalition of several civil society organizations to offer free online courses.
To minimize the social impacts brought by Covid-19, Instituto TIM decided to join forces with the initiative organized by Instituto Biomob NGO to ensure food is provided to families of people with disabilities in the low-income communities in the cities of Petrópolis, Duque de Caxias, Mesquita and Rio de Janeiro. Through the Mútua-Gesto Solidário campaign, over 600 families received monthly food boxes, an initiative that ensured food security for at least 3.000 people in vulnerability situation.

Energy
Energy management is a material topic for TIM and one of its greatest challenges.
In 2020, 64% of TIM's energy matrix came from renewable sources. By 2021, the Company expects to have 80% of its matrix from renewable sources, including 60 solar, hydro and biogas power plants, which will generate 38GWh of energy on a monthly basis, enough to power a 150.000-people city.
By the end of 2020, TIM reached 1.679 active biosites. The biosites have a low visual impact and allow the aggregation of other services such as lighting, surveillance cameras, in addition to telecommunications transmissions.

Events subsequent to December 31, 2020

Payment of Interest on Equity

In January 2021, TIM S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2020 and approved on 2020 according to the following schedule:

Payment Date	Reais per share
22/01/2021	0,102353024

Result of Oi Mobile Assets Auction

As a result of the OI Mobile assets auction described in the highlights of this report, TIM S.A. will be entrusted with the following:

- Customers: approximately 14,5 million customers (corresponding to 40% of UPI Ativos Móveis' total customer base) - according to Anatel's access base of Apr/20. The allocation of customers among the Buyers took into consideration criteria that favor competition among the operators present in the Brazilian market;
- Radiofrequency: approximately 49 MHz as a national average weighted by population (54% of UPI Ativos Móveis radiofrequencies). The division of frequencies between Buyers strictly respects the spectrum limits per group established by Anatel;
- Infrastructure: approximately 7,2 thousand mobile access sites (corresponding to 49% of total UPI Ativos Móveis sites).

For others details of subsequent events, see the specific Note "Events Subsequent to December 31, 2020".

Business outlook for the year 2021

In Brazil, the expectation for the year 2021 is for the recovery process to accelerate, both in terms of the economy in general and the results of the Group itself. We hope to increasingly capitalize on initiatives on the digital transformation and new business fronts that, combined with the evolution of the mobile segment consolidation process and definitions of 5G technology, will create great opportunities for TIM and the telecom industry.

Main risks and uncertainties

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

Strategic risks

Risks related to macro-economic factors
The Group's economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates.
In the Brazilian market, the expected results may be significantly affected by the macroeconomic and political situation.
In 2020, the impact of the pandemic in Brazil can be verified in the drop of Brazilian Gross Domestic Product (GDP) projections of -4,36% for the period, according to the latest FOCUS report for 2020, compared to an expected growth of 2,30% in the first FOCUS report for the same year.

However, after a devastating first semester, when the pandemic caused the closing of businesses, a strong reduction in mobility and large capital outflow, which had already begun in 2019, the scenario has changed during the second semester, with emphasis for the strong GDP growth in the third quarter, boosted by an uneven recovery between the industries, with manufacturing and commerce with average levels above the pre-crisis period and services still significantly low. Activity level did not resume to 2019 levels at year end, but the drop was lower than projected in mid-2020.

Inflation, as measured by the Extended Consumer Price Index (IPCA), ended 2020 at 4,52%, highest annual rate since 2016. IPCA exceeded the midpoint of the target, which was 4,00% for the year. Inflation was mostly impacted by a rise in the price of Food and Drink, up by 14,09% in the year, and the largest contribution for the inflation measured by the index.

On the currency front, the US Dollar appreciated sharply vis-à-vis the Brazilian Real in 2020, ending the year at R$ 5,19 after reaching R$5,93 in May, the highest nominal exchange rate since the implementation of the Brazilian Real. The rate showed strong volatility during the year amid factors such high tax risk from a sharp increase in public spending due to the pandemic, the halt in the tax and administrative reforms, as well as the SELIC rate reaching the historical minimum level, which contributed to a strong exchange rate variation during the year. The trade balance ended the year with a US$ 50,9 billion surplus, up by 8,3% compared to 2019, the industries' performance by the daily average shows growth of 6% in agriculture and cattle raising, drop of 2,7% in extractivism and of 11,3% in heavy industry.

Risks related to competition
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

Operational risks

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

Cybersecurity risks
Cyber risk is on the increase worldwide and as such requires continual monitoring by the Group, given the sheer amount of IT assets managed 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.), the Group 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.
As regards prevention, the Group 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.
TIM has also implemented an insurance program to cover cyber risks.

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

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

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

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

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

Financial risks

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

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

Regulatory and compliance risks

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

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

Group internal control and risk management

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

Information for investors

Brazil – shares

Regarding the trading of shares issued by Group companies on regulated markets, the ordinary shares of TIM S.A. are listed in Brazil (BOVESPA index).
The ordinary shares of TIM S.A. are also listed on the NYSE (New York Stock Exchange); trading occurs through ADS (American Depositary Shares) that represent 5 ordinary shares of TIM S.A.

Waiver of the obligation to present activities in one report only

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

Alternative Performance Measures

In this Directors' Report and in the Consolidated Financial Statements of the Group for the year ended December 31, 2020, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the trend of operations and financial condition. Such measures, which are also presented in interim financial reports, should, however, not be considered as a substitute for those required by IFRS.

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

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

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

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

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

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

Corporate Governance Statement

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

Consolidated Statements of Financial Position
Assets

(millions of euros)	Note	31/12/2020	31/12/2019
Non-current assets			
Intangible assets		**1.732**	**2.593**
Goodwill	[4]	604	851
Intangible assets with a finite useful life	[5]	1.128	1.742
Tangible assets	[6]	**1.707**	**2.377**
Property, plant and equipment owned		1.707	2.377
Right of use assets	[2] [7]	**1.180**	**1.570**
Other non-current assets		**2.520**	**2.957**
Other investments	[8]	48	70
Non-current financial receivables for lease contracts	[9]	25	34
Other non-current financial assets	[9]	1.883	1.893
Miscellaneous receivables and other non-current assets	[10]	479	960
Deferred tax assets	[11]	86	—
Total Non-current assets		**7.140**	**9.497**
Current assets			
Inventories	[12]	39	44
Trade and miscellaneous receivables and other current assets	[13]	807	1.122
Current income tax receivables	[11]	39	72
Current financial assets	[9]	**4.239**	**4.077**
Current financial receivables arising from lease contracts		1	1
Securities other than investments, financial receivables and other current financial assets		1.237	1.418
Cash and cash equivalents		3.001	2.658
Total Current assets		**5.123**	**5.315**
TOTAL ASSETS		**12.263**	**14.812**

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

Equity and Liabilities

(million euros)	Note	31/12/2020	31/12/2019
Equity	[14]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		4.252	5.281
Equity attributable to owners of the Parent		**6.070**	**7.100**
Non-controlling interests		**1.233**	**1.680**
TOTAL EQUITY		**7.303**	**8.780**
Non-current liabilities			
Non-current financial liabilities for financing contracts and others	[15]	1.889	1.890
Non-current financial liabilities for lease contracts	[15]	1.149	1.526
Employee benefits		1	1
Deferred tax liabilities	[11]	—	11
Provisions	[20]	144	187
Miscellaneous payables and other non-current liabilities	[21]	157	237
Total Non-current liabilities		**3.340**	**3.852**
Current liabilities			
Current financial liabilities for financing contracts and others	[15]	590	703
Current financial liabilities for lease contracts	[15]	166	193
Trade and miscellaneous payables and other current liabilities	[20] [22]	845	1.249
Current income tax payables	[11]	18	35
Total Current Liabilities		**1.620**	**2.180**
TOTAL LIABILITIES		**4.960**	**6.032**
TOTAL EQUITY AND LIABILITIES		**12.263**	**14.812**

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

Separate Consolidated Income Statements

(million euros)	Note	Year 2020	Year 2019
Revenues	[24]	2.933	3.937
Other operating income	[25]	12	708
Total revenues and operating income		**2.945**	**4.645**
Purchase of goods and services	[26]	-1.072	-1.453
Employee benefits expenses	[27]	-238	-324
Other operating expenses	[28]	-322	-525
Change in inventories		7	5
Internally generated assets	[29]	79	97
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.400**	**2.444**
Depreciation and amortization	[30]	-939	-1.165
Gains/(losses) on disposals of non-current assets	[31]	8	11
Operating profit (loss) (EBIT)		**469**	**1.290**
Other income (expenses) from investments		1	—
Finance income	[32]	545	437
Finance expenses	[32]	-683	-728
Profit (loss) before tax from continuing operations		**332**	**999**
Income tax expenses	[11]	-44	-208
Profit (loss) from continuing operations		**288**	**791**
PROFIT (LOSS) FOR THE YEAR		**288**	**791**
Attributable to			
Owners of the Parent		184	519
Non-controlling interests		104	272

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

Consolidated Statements of Comprehensive Income

(millions of euros)		Note	Year 2020	Year 2019
Profit (loss) for the year	**(a)**		**288**	**791**
Other components that subsequently will not be reclassified to the Separate Consolidated Income Statements	**(b=c)**		**-26**	**9**
Financial assets measured at fair value through other comprehensive income:	**(c)**		**-26**	**9**
Profit (loss) from fair value adjustments		[8]	-26	9
Other components that subsequently will be reclassified to the Separate Consolidated Income Statements	**(d=e+f+g)**		**-1.597**	**-98**
Financial assets measured at fair value through other comprehensive income:	**(e)**		**5**	**16**
Profit (loss) from fair value adjustments			4	14
Loss (profit) transferred to the Separate Consolidated Income Statements			1	2
Hedging derivative instruments:	**(f)**		**-1**	**1**
Profit (loss) from fair value adjustments			—	1
Loss (profit) transferred to the Separate Consolidated Income Statements			-1	—
Exchange rate differences on translating foreign operations:	**(g)**		**-1.601**	**-115**
Profit (loss) on translating foreign operations			-1.601	-115
Other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**		**-1.623**	**-89**
Total comprehensive income (loss) for the year	**(i=a+h)**		**-1.335**	**702**
Attributable to				
Owners of the Parent			-948	465
Non-controlling interests			-387	237

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

Consolidated Statements of Changes in Equity

Changes from January 1, 2020 to December 31, 2020

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2020	**1.819**	**3.148**	**-438**	**2**	**-1.440**	**—**	**—**	**4.009**	**7.100**	**1.680**	**8.780**
Changes in equity during the period:											
Dividends approved	—	—	—	—	—	—	—	-75	-75	-61	**-136**
Total comprehensive income (loss) for the period	—	—	-21	-1	-1.109	-1	—	184	-948	-387	**-1.335**
Other changes	—	—	—	—	—	—	—	-7	-7	—	**-7**
Balance at December 31, 2020	**1.819**	**3.148**	**-459**	**1**	**-2.549**	**-1**	**—**	**4.111**	**6.070**	**1.233**	**7.303**

Changes from January 1, 2019 to December 31, 2019

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

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

Consolidated Statements of Cash Flows

(million euros)	Note	Year 2020	Year 2019
Cash Flows from operating activities:			
Profit (loss) from continuing operations		288	791
Adjustments for:			
Depreciation and amortisation	[30]	939	1.165
Impairment losses(reversals) of non-current assets (including investments)		(1)	2
Net change in deferred tax assets and liabilities	[11]	(97)	188
Losses (gains) realised on disposal of non-current assets (including investments)		(8)	(11)
Change in inventories		6	(4)
Change in trade receivables and net amounts due from customers on construction contracts	[13]	227	(53)
Change in trade payables		(147)	(33)
Net change in current income tax receivables/payables		17	(2)
Net changes in miscellaneus receivables/payables and other assets/liabilities	[10] [13]	(68)	(970)
Cash flows from (used In) operating activities		**1.156**	**1.073**
Cash Flows from investing activities:			
Total purchase of intangible and tangible assets and right of use on a cash basis		(908)	(969)
Change in financial receivables and other financial assets	[9]	313	1.442
Proceed from sale/repayment of intangible, tangible and other non-current assets		1	1
Cash flows from (used In) investing activities		**(594)**	**474**
Cash Flows from financing activities:			
Changes in current financial liabilities and other	[16]	(69)	(426)
Proceeds from non-current financial liabilities (including current portion)	[16]	547	607
Repayments of non-current financial liabilities (including current portion)	[16]	(464)	(332)
Changes in hedging and non-hedging derivatives	[16]	(66)	3
Dividends paid		(162)	(109)
Cash flows from (used In) financing activities		**(215)**	**(257)**
Aggregate Cash flows		**347**	**1.290**
Net foreign exchange differences on net cash and cash equivalents		(151)	(12)
Net cash and cash equivalents at the beginning of the year	**[9]**	**2.649**	**1.359**
Net cash and cash equivalents at the end of the year	**[9]**	**2.995**	**2.649**

Additional Cash Flow Information

(million euros)	Year 2020	Year 2019
Income taxes (paid) received	-30	-29
Interest expense paid	-373	-450
Interest income received	236	252
Dividends received	1	—

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

Notes to the Consolidated Financial Statements

Note 1 - Form, content and other general information

FORM AND CONTENT

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

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

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

The Consolidated Financial Statements of the Group for the year ended December 31, 2020 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS") and were authorized for issue with a resolution of the Board of Directors on February 22, 2021.

The Consolidated Financial Statements for the year ended December 31, 2020 have been prepared on a going concern basis (for further details see Note "Accounting policies").

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

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

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

FINANCIAL STATEMENT FORMATS

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

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

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

SEGMENT REPORTING

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

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

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

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

Note 2 - Accounting Policies

GOING CONCERN

The Consolidated Financial Statements for the year ended December 31, 2020 have been prepared on a going concern basis as there is the reasonable expectation that the Group 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 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;
- 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.

COVID-19

In December 2019, an outbreak of a contagious disease, Coronavirus 2019 (Covid-19), began in mainland China, and since early 2020, the virus has spread to Europe, the United States and several other countries, including Brazil. The World Health Organization (WHO) has declared the Coronavirus (Covid-19) as a pandemic on March 11, 2020. The Covid-19 outbreak developed rapidly in 2020 and measures taken to contain the virus affected economic activity, which in turn had implications for the Group’s operating results and cash flows. The lockdown was declared in several States in Brazil in March 2020. Since then, the management has been monitoring the impacts and any material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as an ongoing company. However, in 2020, the Brazil BU has a robust infrastructure and is part of an extremely important segment in this period of crisis, essential for the population, government and health system. After an internal analysis, there was no indication of impairment of assets or risks associated with the fulfilment of obligations, since it is not highly leveraged and still has credit lines available to be used in the event of a significant reduction in cash volume. The Group is complying with the health and safety protocols established by authorities and agencies, is monitoring the evolution of the situation and closely assessing the impact of Covid-19 on its business. It was predicted that Covid-19 pandemic its potential impact on general commercial activity and the global economy could reduce our customers’ demand for more expensive plans or services (e.g. roaming) or even lead to the plan

cancellation or increase default, while may lead to disruptions in our supply chain, in the production or delivery of our suppliers or on our ability to deliver our products (such as new devices, or SIM cards) or to serve our network in a timely manner, and have a material adverse effect on our business and results of operations. In 2020 and so far, we have not suffered any material impact on our operations.
In June 2020, stores resumed their activities with a positive impact on handset sales and the impacts on our businesses or our financial targets due to the pandemic were not material. However, we are still continuously monitoring government responses and economic performance and we believe that a prolonged slowdown in local, regional or global economic conditions may affect the Group's businesses.
Concerning the Parent, it is implementing protective measures for its employees and is enhancing its resilience through:

- adapting workplaces and protecting workers: ensured two-meter distance between desks; placed barrier between workers and waypoints; disposed meeting rooms to the benefit of spare offices; supplied of hand sanitiser for each desk;
- improving Business Continuity Management: ensured ability of staff and operations to continue functioning remotely; upgrade of IT Hardware and remote connectivity;
- upgrading of Cyber Security & IT: raised staff awareness of cyber threats; upgraded authentication features; reinforced remote administration of devices and accesses.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of all subsidiaries from the date on which control over such subsidiaries commences until the date on which control ceases.
The date of all the subsidiaries' financial statements coincides with that of the Parent.
Control exists when the Parent has all the following:

- 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.

The Parent assesses whether it controls an investee if facts and circumstances indicate that there are changes in one or more of the three control elements.
In the preparation of the Consolidated Financial Statements,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 the non-controlling interests 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 acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase (or negative goodwill) is recognized in the separate consolidated income statement.
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 in non-controlling interests.
The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are converted into Euro at the average exchange rates for the year.
Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are converted using the year-end exchange rate.
Under IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in a loss 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 are accounted for using the equity method, as provided by IAS 28 (Investments in Associates and Joint Ventures).
Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises significant influence, but no control or joint control over their financial and operating policies.
Associates are included in the Consolidated Financial Statements from the date that significant influence commences until the date on which significant influence ceases. Under the equity method, on initial recognition the investment in an associate is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognized in the investor's income statement. Dividends received from an investee reduce the carrying amount of the investment.
Adjustments to the carrying amount may also be necessary for changes in the investee's other comprehensive income (i.e. those arising from foreign exchange translation differences). The investor's share of those changes is recognized in the investor's other comprehensive income.
If an investor's share of losses of an associate or equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
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 are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate.
The investor's share of profits and losses of the associate or joint venture arising from said transactions is eliminated.

INTANGIBLE ASSETS

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

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

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

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

IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination to be charged to the Separate Consolidated 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 acquisition date of control and recognize the resulting gain or loss, if any, in the Separate Consolidated Income Statement.

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

Development costs
Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets. These costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits. Capitalized development costs comprise only 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 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.

RIGHT OF USE ASSETS

In accordance with IFRS 16, lease liabilities are presented through the recognition of a financial liability in the statement of financial position consisting in the present value of future lease payments, against the recognition of a 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 RIGHT OF USE ASSETS

Goodwill
Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (Impairment of Assets); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.
The test is generally conducted at the end of every year, so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.
For the purpose of verifying its recoverability, goodwill is allocated, from the acquisition date, to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the combination.
If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the Separate Consolidated Income Statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and 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 converted to euro at the spot rate on the date of the impairment test (in the case of the 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 interests.
After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with finite useful lives and right of use assets
At the end of each reporting period, the Group assesses whether there is any indication that an asset – whether tangible or intangible with finite useful lives or a right-of-use – may be impaired. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical 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 LEASES ASSETS

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

FINANCIAL INSTRUMENTS

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

As part of managing financial assets other than trade receivables, the Group Management has identified its business models on the basis of how the financial instruments are managed and how their cash flows are used. This is done to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available through the treasuries of Group companies and in accordance with the strategies set forth by the Ultimate Parent TIM.
The business models adopted are:
- Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; they are measured at amortized cost;
- Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; they are measured at fair value through other consolidated comprehensive income (FVTOCI);
- Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; they are measured at fair value through consolidated profit or loss (FVTPL).

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

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

Subsequent measurement changes according to category of financial assets:
- Amortised cost: Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the Consolidated Statement of Income.

- FVTOCI: Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in “Finance income and expenses”.
- FVTPL: A gain or loss on those investments is recognized in profit or loss and presented net within “Finance income and expenses” in the period in which it arises.

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

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

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

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

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

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

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

- impairment on trade receivables assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. It is recognized as a reduction in accounts receivable based on the profile of the subscriber portfolio, the aging of overdue accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by Management, as adjusted to reflect current and prospective information on macroeconomic factors that affect the customers' ability to settle the receivables.

- impairment on financial assets other than trade receivables is 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 Group decided to continue to apply the hedge accounting provisions contained in IAS 39, instead of those of IFRS 9.

Derivatives are used by the Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced 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 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 year 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.

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 fair 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.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

INVENTORIES

Inventories are measured at the lower of purchase 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.

EMPLOYEE BENEFITS

Equity compensation plans
The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (i.e. stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (Share-Based Payment).
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 "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 current 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 statements as "Finance expenses".

FOREIGN CURRENCY TRANSACTIONS

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

REVENUES

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

- identification of the contract: takes place when the parties approve the contract (with commercial substance), identify the respective rights and obligations, this means that: the contract must be legally enforceable, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Group deems receipt of payment as probable;
- identification of the performance obligations: based on the review of its contracts, the Group verified the existence of two performance obligations:(i)sale of equipment and (ii) provision of mobile, fixed and internet telephony services. Revenues recognition starts when, or as, the performance obligation is met when transferring the good or service promised to the customer; the asset is considered transferred when or as the customer obtains control of this asset;
- determination of the transaction price and allocation of the transaction price to the performance obligations: the Group sell commercial packages that combine services and sale of cellular handsets with discounts. In accordance with IFRS 15, the Group is required to perform the discount allocation and recognize revenues related to each performance obligation based on their standalone selling prices.
- recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:
  - Revenues from services rendered
    The principal service revenue derives from monthly subscription, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges

and interconnection revenue. The revenue is recognized as the services are used, net of sales taxes and discounts granted on services. This revenue is recognized only when the amount of services rendered can be estimated reliably.
Revenues are recognized monthly, through billing, and revenues to be billed between the billing date and the end of the month (unbilled) are identified, processed, and recognized in the month in which the service was provided. These non-billed revenues are recorded on an estimated basis, which takes into account consumption data, number of days elapsed since the last billing date.
Interconnection traffic and roaming revenue are recorded separately, without offsetting the amounts owed to other telecom operators (the latter are accounted for as operating costs).
The minutes not used by customers and/or reload credits in the possession of commercial partners regarding the prepaid service system are recorded as deferred revenue and allocated to income when these services are actually used by customers.

- Revenues from product sales
  Revenues from product sales (telephones, mini-modems, tablets and other equipment) are recognized when the performance obligations associated with the contract are transferred to the buyer. Revenues from sales of devices to trading partners are accounted for at the time of their physical delivery to the partner, net of discounts, and not at the time of sale to the end customer, since the Company has no control over the product sold.

  The recognition of revenues can generate the recognition of an asset or liability deriving from contracts. In particular:
- Contract assets are the rights to a consideration in exchange for goods or services that have been transferred to the customer, when the rights is conditioned on something other than the passage of time and are recognised as Other Receivable.
- Contract liabilities are the obligation to transfer goods or services to the customer for which the Group has received (or for which it is due) a consideration from the customer.

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

RESEARCH COSTS AND ADVERTISING EXPENSES

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

FINANCE INCOME AND EXPENSES

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

DIVIDENDS

Dividends received from companies other than subsidiaries and associates are recognized in the Separate Consolidated Income Statement 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.

CURRENT AND DEFERRED INCOME TAXES

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.
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.
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.
Prepaid/deferred taxes 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 non tax-deductible goodwill and for those differences related to investments in subsidiaries, which will not reverse in the foreseeable future. Prepaid 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. Prepaid tax assets and deferred tax 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".

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 are detailed below.

Financial statement line item/area	Accounting estimates
Impairment of goodwill	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. If the market capitalization, taking in account the volatility, is sufficiently high, it is considered as the recoverable value. Otherwise, the valuation process entails the use of methods such as the discounted cash flow method, which uses assumptions to estimate cash flows. In this case, the recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note "Goodwill".
Impairment of intangible and tangible assets with finite useful lives and right of use assets	At the end of each reporting period, the Group assesses whether there is any indication that an asset – whether tangible or intangible with finite useful lives or a right-of-use – 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.
Expected Credit Loss	Impairment on trade receivables assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. It is recognized as a reduction in accounts receivable based on the profile of the subscriber portfolio, the aging of overdue accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by Management, as adjusted to reflect current and prospective information on macroeconomic factors that affect the customers' ability to settle the receivables. Impairment on financial assets other than trade receivables is 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. Details are provided in the Note "Financial Risk Management".
Provision for legal and administrative proceedings	The legal and administrative proceedings are analyzed by the Management along with its legal advisors (internal and external). The Group considers factors in its analysis such as hierarchy of laws, precedents available, recent court judgments, their relevance in the legal system and payment history. These assessments involve Management's judgment. Further detail are provided in the Note "Disputes and pending legal actions, other information, commitments and guarantees".

Financial statement line item/area	Accounting estimates
Unbilled revenues	Since some cut dates for billing occur at intermediate dates within the months of the year, as the end of each month there are revenues earned by the Group, but not actually invoiced to its customers. These unbilled revenues are recorded based on estimate that takes into consideration historical consumption data, number of days elapsed since the last billing date, among others.
Income tax and social contribution (current and deferred)	Income tax and social contribution (current and deferred) are calculated according to interpretations of current legislation and IAS 12. This process typically involves complex estimates to determine taxable income and temporary differences. In particular, the deferred assets on tax losses, negative basis of social contribution and temporary differences is recognized in proportion to the probability that future taxable income is available and can be used. The measurement of the recoverability of deferred income tax on tax losses, negative basis of social contribution and temporary differences takes the history of taxable income into account, as well as the estimate of future taxable income. Further detail are provided in the Note "Income taxes (current and deferred)".
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".
Leasing	The Group has a significant number of lease agreements in which it is the lessee, whereby with the adoption of accounting standard IFRS 16, the Group Management made certain judgments when measuring the lease liability and the right of use assets, such as: (i) an estimation of the lease term, considering a non-cancellable period and the periods covered by options to extend the lease term, where such exercise depends only on the Group and is reasonably certain; (ii) use of certain assumptions to calculate the discount rate. According to paragraph 18 of IFRS 16, an entity shall determine the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease (if the lessee is reasonably certain to exercise that option) and periods covered by an option to terminate the lease (if the lessee is reasonably certain not to exercise that option). During the non-cancellable lease period, the contract must be enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission of the other party with no more than an insignificant penalty. The Group is not able to readily determine the interest rate implicit on the lease and, therefore, considers its incremental rate on loans to measure lease liabilities. Incremental rate on the lessee´s borrowing is the interest rate that the lessee would have to pay when borrowing, for a similar term and with a similar guarantee, the resources necessary to obtain the asset with a value similar to the right of use asset in a similar economic environment. Thus, this assessment of lease, considering non-cancellable period and the period covered by options to extend the contract term. The Group estimates the incremental rate using observable data (such as market interest rates) when available and considers aspects that are specific to the Company (such as the cost of debt) in this estimate. The Group´s average incremental rate is 9,06% for an average lease term.

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 as from 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. In phase 2, the amendment provides certain reliefs in relation to interest rate benchmark reforms in relation to hedge accounting, that should not generally terminate as a consequence of the reforms. However, any hedge ineffectiveness should continue to be recorded in the income statement.

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 material effect on the Consolidated Financial Statements at December 31, 2020.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET APPLICABLE
At the reporting date 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.

	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 January, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of the interest rates benchmark - Phase 2	1 January, 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 January, 2022
Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current	1 January, 2023
Amendments to IAS 1 Presentation of Financial Statements: Information regarding accounting standards	1 January, 2023
Amendments to IAS 8 Accounting Standards, changes in accounting estimates and Errors: Definition of estimates	1 January, 2023
IFRS 17 (Insurance contracts), including amendments to IFRS 17	1 January, 2023

The potential impacts on the Group Consolidated Financial Statements from 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 nor for loans is expected in 2021.
More specifically, TIM Group 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.

Note 3 - Scope of Consolidation

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

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

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2020 compared to December 31, 2019 are listed below. These changes did not have any significant impacts on the Consolidated Financial Statements of the TIF Group at December 31, 2020.

Company	Event	Business Unit	Month
TIM Participações S.A.	Merged in TIM S.A.	Brazil	September 2020
Fiberco Soluções de Infraestrutura Ltda	New establishment	Brazil	December 2020

Further details are provided in the Note "List of companies of the Telecom Italia Finance Group".

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2020, the Group held equity investments in subsidiaries with significant non-controlling interests in TIM Brasil Group.

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

TIM Brasil Group – Brazil Business Unit
Non-controlling interests held at December 31, 2020 amounted to 33,4% of the capital of TIM S.A., coinciding with the corresponding voting rights.

Financial Position Data TIM Brasil Group

(million euros)	31/12/2020	31/12/2019
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	1.338	1.847
Total Liabilities	**2.897**	**3.951**
Equity	**4.011**	**5.483**
of which Non-controlling interests	*1.232*	*1.681*

Income statement Data TIM Brasil Group

(million euros)	Year 2020	Year 2019
Revenues	2.933	3.937
Profit (loss) for the year	**297**	**799**
of which Non-controlling interests	*104*	*272*

Financial Data TIM Brasil Group
In 2020, aggregate cash flows generated a negative amount of 93 million euros, including 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, partially due to a negative exchange rate effect of 12 million euros, without which cash flow would have generated a positive amount of 274 million euros.

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

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

Note 4 - Goodwill

Goodwill is only referred to Brazil Cash Generating unit (“CGU”) and shows the following changes during 2020 and 2019:

(million euros)	31/12/2019	Increase	Decrease	Impairments	Exchange differences	31/12/2020
Brazil	**851**	—	—	—	-247	**604**

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

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

(million euros)	31/12/2020			31/12/2019		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**751**	**147**	**604**	**1.055**	**203**	**851**

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 in 2020 and in 2019.
Goodwill is not subject to amortization, but it is tested for impairment at least annually. Accordingly, the Group conducted impairment tests on the recoverability of the goodwill. The results showed that the recoverable amount of the assets at December 31, 2020 was higher than the net carrying amount for the Brazil CGU (+1.965 million of euros).
The value used to measure the recoverable amount of the Cash Generating Unit to which goodwill has been allocated is the fair value, based on market capitalisation as of the end of the reporting period. The recoverable amount of the assets was denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.
In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. To make the recoverable amount of the Brazil CGU equal to their net carrying amount the market capitalization should vary of -25%.

Note 5 - Intangible assets with a finite useful life

All intangible assets with a finite useful life in 2020 are referred to Brazil Business Unit.

(millions of euros)	31/12/2019	Investments	Amortization	Disposals	Exchange differences	Other Changes	31/12/2020
Industrial patents and intellectual property rights	**690**	151	-214	—	-195	-3	**429**
Concessions, licenses, trademarks and similar rights	**1.018**	6	-93	—	-288	—	**642**
Other intangible assets	**3**	—	-1	—	-1	—	**2**
Work in progress and advance payments	**31**	36	—	—	-12	—	**55**
Total	**1.742**	193	-308	—	-496	-3	**1.128**

(millions of euros)	31/12/2018	Adjustment for accounting principles	Investments	Amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other Changes	31/12/2019
Industrial patents and intellectual property rights	**794**	—	196	-318	—	-14	—	31	**690**
Concessions, licenses, trademarks and similar rights	**736**	-65	-10	-99	—	-23	—	478	**1.018**
Other intangible assets	**3**	—	1	-1	—	—	—	—	**3**
Work in progress and advance payments	**519**	—	5	—	—	2	9	-504	**31**
Total	**2.051**	**-65**	**193**	**-418**	**—**	**-35**	**9**	**6**	**1.742**

Industrial patents and intellectual property rights at December 31, 2020 consisted mainly of software licenses.

Concessions, licenses, trademarks and similar rights at December 31, 2020 mainly related to the remaining cost of telephone licenses and similar rights (601 million of euros).

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

Type	Net carrying amount at 31/12/2020 (million euros)	Useful life in years	Amortization charge for 2020 (million euros)
GSM and 3G (UMTS)	50	15	21
4G (LTE)	552	15	67

Work in progress and advance payments at December 31, 2020 represents the cost of projects in progress related to the acquisition of 4G authorizations and/or other intangible assets during the period of their construction and installation, up to the moment when they enter into operation, whereupon they will be transferred to the corresponding accounts for these assets.

Amortization have been reported in the income statement as components of the operating result.
No impairment losses have been recorded during the year 2020 and 2019.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2020 and 2019 can be summarized as follows:

	31/12/2020		
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	2.992	2.563	429
Concessions, licenses, trademarks and similar rights	1.573	931	642
Other intangible assets with a finite useful life	374	373	2
Work in progress and advance payments	55	—	55
Total intangible assets with a finite useful life	**4.995**	**3.867**	**1.128**

	31/12/2019		
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	4.017	3.328	690
Concessions, licenses, trademarks and similar rights	2.201	1.184	1.018
Other intangible assets with a finite useful life	531	528	3
Work in progress and advance payments	31	—	31
Total intangible assets with a finite useful life	**6.781**	**5.039**	**1.742**

Note 6 - Tangible assets

All tangible assets in 2020 and 2019 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(million euros)	**31/12/2019**	Investments	Depreciation	Disposals	Exchange differences	Other Changes	**31/12/2020**
Land	**9**	—	—	—	-3	—	**6**
Buildings (civil and industrial)	**16**	—	-1	—	-5	—	**11**
Plant and equipment	**2.105**	364	-388	-2	-614	82	**1.546**
Other	**126**	34	-41	-1	-37	9	**90**
Construction in progress and advance payments	**121**	58	—	—	-32	-93	**54**
Total	**2.377**	**456**	**-430**	**-3**	**-691**	**-2**	**1.707**

(million euros)	**31/12/2018**	Investments	Depreciation	Disposals	Exchange differences	Other Changes	**31/12/2019**
Land	**9**	—	—	—	—	—	**9**
Buildings (civil and industrial)	**17**	—	-1	—	—	—	**16**
Plant and equipment	**1.947**	489	-459	-1	-44	173	**2.105**
Other	**107**	54	-51	-3	-3	21	**126**
Construction in progress and advance payments	**179**	137	—	—	-2	-192	**121**
Total	**2.259**	**680**	**-511**	**-4**	**-50**	**2**	**2.377**

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

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

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

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

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

Depreciation have been reported in the income statement as components of the operating result.
No impairment losses have been recorded during the year 2020 and 2019.

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)	4 %
Plant and equipment	4% - 33%
Other	6,67% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and 2019 can be summarized as follows:

	31/12/2020		
(million euros)	**Gross carrying amount**	Accumulated depreciation	Net carrying amount
Land	**6**	—	6
Buildings (civil and industrial)	**21**	10	11
Plant and equipment	**5.050**	3.503	1.546
Other	**800**	710	90
Construction in progress and advance payments	**54**	—	**54**
Total	**5.931**	**4.224**	**1.707**

	31/12/2019		
(million euros)	**Gross carrying amount**	Accumulated depreciation	Net carrying amount
Land	**9**	—	9
Buildings (civil and industrial)	**30**	14	16
Plant and equipment	**6.554**	4.450	2.105
Other	**1.074**	948	126
Construction in progress and advance payments	**121**	—	**121**
Total	**7.788**	**5.412**	**2.377**

Note 7 - Right of use assets

At December 31, 2020 right of use assets amounted to 1.180 million euros and are referred to Brazil Business Unit. The breakdown and movements during 2020 and 2019 are shown below.

(millions of euros)	31/12/2019	Investments	Increase in lease contracts	Depreciation and amortization	Disposals	Exchange differences	Other Changes	31/12/2020
Property	446	—	152	-53	-85	-128	-34	**299**
Plant and equipment	1.118	12	355	-147	-109	-331	-17	**880**
Other	6	—	1	-2	—	-1	-1	**2**
Total	**1.570**	**12**	**508**	**-202**	**-194**	**-460**	**-53**	**1.180**

(millions of euros)	31/12/2018	Adjustment for accounting principles	Investments	Increase in lease contracts	Depreciation and amortization	Disposals	Exchange differences	Other Changes	31/12/2019
Property	—	432	—	116	-63	—	-9	-30	**446**
Plant and equipment	—	1.004	—	298	-170	—	-24	9	**1.118**
Other	—	8	—	1	-3	—	—	—	**6**
Total	**—**	**1.444**	**—**	**416**	**-236**	**—**	**-33**	**-21**	**1.570**

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

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

The item **Other** mainly comprises the leases on motor vehicles.

No impairment losses have been recorded during the year 2020 and 2019.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2020 and 2019 can be summarized as follows:

	31/12/2020		
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Property	380	81	299
Plant and equipment	1.171	292	880
Other	7	5	2
Total	**1.558**	**378**	**1.180**

	31/12/2019		
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Property	508	61	446
Plant and equipment	1.345	228	1.118
Other	12	7	6
Total	**1.865**	**296**	**1.570**

Note 8 - Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

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

INVESTMENTS IN STRUCTURED ENTITIES

The Group does not hold investments in structured entities.

OTHER INVESTMENTS

(million euros)	31/12/2020	31/12/2019
TIM S.p.A.	48	70
Total	**48**	**70**

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

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

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

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

(millions of euros)	31/12/2020	31/12/2019
Non-current financial assets	**1.907**	**1.927**
Financial receivables for lease contracts	25	34
Hedging derivatives relating to hedged items classified as non-current assets/ liabilities of a financial nature	1	1
Non-hedging derivatives	700	635
Loans and other financial receivables	1.182	1.257
Current financial assets	**4.239**	**4.077**
Securities other than investments	**1.092**	**877**
Fair value through other comprehensive income (FVTOCI)	768	728
Fair value through profit or loss (FVTPL)	325	149
Financial receivables and other current financial assets	**145**	**542**
Financial receivables arising from lease contracts	1	1
Non-hedging derivatives	68	24
Loans and other financial receivables	76	517
Cash and cash equivalents	**3.001**	**2.658**
Total non-current and current financial assets	**6.146**	**6.004**

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

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

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

Non-hedging derivatives relating to items classified as current and non-current financial assets totaled 768 million euros (658 million euros at December 31, 2019). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

Loans and receivables both in current and non-current financial assets amounts to 1.258 million euros (1.774 million euros at December 31, 2019) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. Regarding the loans granted to the ultimate Parent company, the credit risk is considered low based on the financial capability of TIM S.p.A. Other loans are considered fully recoverable by the management.

Securities other than investments included in current assets relates to:

- listed securities, classified as FVTOCI - *Fair value through other comprehensive income,* due beyond three months. They consist of 320 million euros of treasury bonds and 448 million euros of bonds purchased by the Parent with different maturities, all with an active market and consequently readily convertible into cash. The above government bonds represent investments in "Sovereign debt securities”.
- securities, classified as FVTPL - *Fair value through profit or loss*, due beyond three months. They are related to the investment made by the Brazil Business Unit for an equivalent value of 325 million euros in monetary funds.

On the basis of two securities lending agreements signed with TIM S.p.A., Telecom Italia Finance S.A. lent on November 27, 2019 and thereafter renewed on April 28, 2020, 98 million euros (nominal) of BTP 03/01/2023 and 150 million euros of BTP 04/15/2021 until February 2, 2021 (renewable term). As per IFRS9, the assets have not been derecognized, being Telecom Italia Finance S.A. the Company which retains the risks and benefits associated with the position.

Cash and cash equivalents:

(millions of euros)	31/12/2020	31/12/2019
Liquid assets with banks, financial institutions and post offices	2.606	2.176
Securities other than investments (due within 3 months)	395	482
Total	**3.001**	**2.658**

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

(millions of euros)	31/12/2020	31/12/2019
Liquid assets with banks, financial institutions and post offices	2.606	2.176
Securities other than investments (due within 3 months)	395	482
	3.001	**2.658**
Financial payables (due within 3 months)	-6	-9
Total	**2.995**	**2.649**

The different technical forms of investing available cash at December 31, 2020 had the following characteristics:

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

Securities other than investments (due within 3 months) included 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 10 - Miscellaneous receivables and other non-current assets

(million euros)	31/12/2020	Of which Financial Instruments	31/12/2019	Of which Financial Instruments
Miscellaneous receivables	**467**	**132**	**944**	**239**
Other non-current assets	**12**	**—**	**15**	**—**
Prepaid expenses from customer contracts (contract assets)	3	—	5	—
Other prepaid expenses	8	—	10	—
Total	**479**	**132**	**960**	**239**

As at December 31, 2020 **Miscellaneous receivables** relate to the Brazil Business Unit for an amount of 467 million euros (944 million euros at December 31, 2019). They include receivables for court deposits of 126 million euros (225 million euros at December 31, 2019) and income tax receivables of 33 million euros (46 million euros at December 31, 2019). Furthermore, they included 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"

Other non-current assets include prepaid expenses related to the Brazil BU for 12 million euros (15 million euros at December 31, 2019) and is mainly represented by incremental costs related to sales commissions paid to partners for obtaining customer contracts arising from the adoption of IFRS 15, which are deferred to the result in accordance with the term of the contract and/or economic benefit, usually from 1 to 2 years.

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

Note 11 - Income taxes (current and deferred)

INCOME TAX RECEIVABLES

Non-current and current income tax receivables at December 31, 2020 amounted to 72 million euros (117 million euros at December 31, 2019) and related to the Brazil Business Unit.
Specifically, they consisted of:

- non-current receivables of 33 million euros (45 million at December 31, 2019);
- current income tax receivables of 39 million euros (72 million euros at December 31, 2019).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 86 million euros at December 31, 2020 (-11 million euros at December 31, 2019) was broken down as follows:

(million euros)	31/12/2020	31/12/2019
Deferred tax assets	86	—
Deferred tax liabilities	—	-11
Total	**86**	**-11**

Deferred taxes are all attributable to Brazil BU.

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

(million euros)	31/12/2020	31/12/2019
Deferred tax assets	260	372
Deferred tax liabilities	-174	-383
Total	**86**	**-11**

The temporary differences that made up this line item at December 31, 2020 and 2019, as well as the movements during 2020 were as follows:

(million euros)	31/12/2019	Recognized in profit or loss	Recognized in equity	Exchange differences and other changes	31/12/2020
Deferred tax assets	**372**	**-3**	**—**	**-109**	**260**
Tax loss carryforwards	176	-55	—	-47	75
Provision for bad debts	67	-16	—	-18	33
Provisions	83	35	—	-27	91
Other deferred tax assets	46	33	—	-18	61
					—
Deferred tax liabilities	**-383**	**105**	**—**	**104**	**-174**
Brazil BU - exclusion of ICMS from the PIS and Cofins calculation basis	-226	173	—	53	—
Derivatives	-3	-24	—	3	-24
Business combinations - for step-up of net assets in excess of tax basis	-98	2	—	29	-67
Accelerated depreciation	—	-45	—	3	-42
Other deferred tax liabilities	-56	-1	—	16	-41
Total Net deferred tax assets (liabilities)	**-11**	**102**	**—**	**-5**	**86**

At December 31, 2020, the Group had unused tax loss carryforwards of 1.227 million euros with the following expiration dates:

Year of expiration	(million euros)
2021	—
2022	—
2023	—
2024	—
2025	—
Expiration after 2025	28
Without expiration	1.198
Total unused tax loss carryforwards	**1.227**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 229 million euros at December 31, 2020 (522 million euros at December 31, 2019) and referred to the Brazil Business Unit. Deferred tax assets are recognized when it is considered probable that taxable income will be available in the future against which the tax losses can be utilized. On the other hand, deferred tax assets of 227 million euros (247 million euros at December 31, 2019) have not been recognized on 939 million euros (1.020 million euros at December 31, 2019) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2020, deferred tax liabilities have not been recognized on approximately 0,5 billion euros (0,5 billion euros at December 31, 2019) of tax-suspended reserves and undistributed earnings of subsidiaries, because the Group is in a position to control the timing of the distribution of those reserves and it is probable that those accumulated earnings will not be distributed in the foreseeable future. The contingent liabilities relating to taxes that should be recognized, if these reserves are distributed, are in any case not significant.

INCOME TAX PAYABLES

Income tax payables amounted to 49 million euros (77 million euros at December 31, 2019) and are mainly related to Brazil Business Unit. They were broken down as follows:

(million euros)	31/12/2020	31/12/2019
Non-current	31	42
Current	18	35
Total	**49**	**77**

INCOME TAX INCOME (EXPENSE)

Details are as follows:

(million euros)	Year 2020	Year 2019
Current taxes for the year	25	35
Reimbursement of prior years taxes	—	-16
Net difference in prior year estimates	120	—
Total current taxes	**145**	**19**
Deferred taxes	-102	189
Total income tax for the year	**44**	**208**

The increase in total current tax reflects the difference in estimates 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. For further details please refer to the Note "Disputes and pending legal actions, other information, commitments and guarantees".
The "Reimbursement of prior years taxes" in 2019 referred to tax recovery linked to the sale of the participation in the Argentinian company Sofora. The tax has been effectively paid to the Argentinian administration in 2019 following official clarifications of the fiscal law applicable and, consequently, the counterparty cashed back the difference of 18 million dollars (16 million euros) to the Parent.

The reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2020 and 2019 is the following:

(million euros)	Year 2020	Year 2019
Profit (loss) before tax	**332**	**999**
Theoretical income tax	**83**	**249**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	-20	1
Tax losses from prior years not recoverable (recoverable) in future years	—	-1
Different rate compared to theoretical rate in force in Luxembourg and other changes	9	3
Brazil: incentive on investments	-28	-44
Total effective income tax recognized in income statement	**44**	**208**

During the year 2020 tax losses of 20 million euros have been considered not recoverable in relation to tax loss carryforwards whose recoverability is not considered probable.
The tax rate in force in Luxembourg as at December 31, 2020 and 2019 is 24,94%.

Note 12 - Inventories

(million euros)	31/12/2020	31/12/2019
Finished goods	39	45
Total	**39**	**45**

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

Note 13 - Trade and miscellaneous receivables and other current assets

(million euros)	31/12/2020	Of which Financial Instruments	31/12/2019	Of which Financial Instruments
Trade receivables	**495**	**495**	**722**	**722**
Receivables from customers	452	452	665	665
Receivables from other telecommunications operators	44	44	58	58
Miscellaneous receivables	**285**	**2**	**357**	**2**
Other current assets	**26**	**2**	**42**	**3**
Prepaid expenses from customer contracts (contract assets)	19	2	33	3
Other prepaid expenses	7	—	9	—
Total	**807**	**499**	**1.122**	**728**

The aging of financial instruments included in "Trade and miscellaneous receivables and other current assets" at December 31, 2020 and 2019 was as follows:

				overdue:			
(million euros)	**31/12/2020**	Total non-overdue	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Net trade and miscellaneous receivables and other current assets	499	387	112	49	35	28	—

				overdue:			
(million euros)	**31/12/2019**	Total non - overdue	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Net trade and miscellaneous receivables and other current assets	728	556	172	109	36	27	—

The decrese in the non-overdue portion (169 million euros) includes a negative exchange adjustment of approximately 160 million euros.
Overdue receivables decreased of 60 million of euros compared to December 31, 2019, including a negative exchange difference of around 50 million euros.

As at December 31, 2020 **Trade receivables** related to the Brazil Business Unit amounted to 495 million euros (722 million euros at December 31, 2019 and are stated net of the provision for expected credit losses of 102 million euros (171 million euros at December 31, 2019).

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

(million euros)	2020	2019
At January 01	**171**	**155**
Provision charges to the income statement	94	170
Utilization and decreases	(115)	(150)
Exchange differences and other changes	(48)	(4)
At December 31	**102**	**171**

Other current assets include the current portion of prepaid expenses related to the Brazil BU and is mainly represented by incremental costs related to sales commissions paid to partners for obtaining customer contracts arising from the adoption of IFRS 15, which are deferred to the result in accordance with the term of the contract and/or economic benefit, usually from 1 to 2 years. Other prepaid expenses are related to insurance premiums.

As at December 31, 2020 **Miscellaneous receivables** amounted to 285 million euros (357 million euros at December 31, 2019) and did not include provisions for bad debts (same as at December 31, 2019).

Details are as follows:

(million euros)	31/12/2020	31/12/2019
Advances to suppliers	16	7
Tax receivables	245	332
Sundry receivables	25	18
Total	**285**	**357**

As at December 31, 2020 **Tax receivables** included 245 million euros (332 million euros at December 31, 2019) relating to the Brazil Business Unit, 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.

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

Note 14 - Equity

As at December 31, 2020 the authorized, issued and fully paid capital of 1.818.691.978,50 euros (1.818.691.978,50 euros at December 31, 2019) is represented by 185.960.325 ordinary shares (185.960.325 at December 31, 2019) with a nominal value of EUR 9,78 per share.
As at December 31, 2020 and 2019 the Parent is 100% held by TIM S.p.A.
There has not been any movement in Share Capital in 2020.

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

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

(million euros)	31/12/2020	31/12/2019
Non-current financial liabilities	**3.038**	**3.416**
Financial payables (medium/long-term):	**1.273**	**1.318**
Bonds	1.012	1.012
Amounts due to banks	103	142
Other financial payables	158	164
Finance lease liabilities (medium/long-term)	**1.149**	**1.526**
Other financial liabilities (medium/long-term):	**616**	**572**
Non-hedging derivatives	616	572
Current financial liabilities	**756**	**896**
Financial payables (short-term):	**572**	**686**
Bonds	74	300
Amounts due to banks	490	359
Other financial payables	8	26
Finance lease liabilities (short-term)	**166**	**193**
Other financial liabilities (short-term):	**18**	**17**
Non-hedging derivatives	18	17
Total financial liabilities (gross financial debt)	**3.793**	**4.312**

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

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

(million euros)	31/12/2020	31/12/2019
Up to 2,5%	311	25
From 2,5% to 5%	286	336
From 5% to 7,5%	158	416
From 7,5% to 10%	1.012	1.144
Over 10%	1.313	1.717
Accruals/deferrals, MTM and derivatives	712	674
Total	**3.793**	**4.312**

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

(million euros)	31/12/2020	31/12/2019
Up to 2,5%	380	189
From 2,5% to 5%	375	584
From 5% to 7,5%	—	86
From 7,5% to 10%	1.012	1.062
Over 10%	1.313	1.717
Accruals/deferrals, MTM and derivatives	712	674
Total	**3.793**	**4.312**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 2020:

	maturing by 31/12 of the year						
(millions of euros)	2021	2022	2023	2024	2025	After 2025	Total
Bonds	—	—	—	—	—	1.015	1.015
Loans and other financial liabilities	250	62	—	33	21	158	525
Finance lease liabilities	—	—	1	223	—	1.090	1.314
Total	**250**	**62**	**1**	**256**	**21**	**2.263**	**2.854**
Current financial liabilities	229	—	—	—	—	—	229
Total	**480**	**62**	**1**	**256**	**21**	**2.263**	**3.083**

The following tables list the bonds issued by the Group, expressed at the nominal repayment amount, net of bond repurchases, and also at market value as at December 31, 2020:

Currency	Amount (millions)	Nominal repayment amount at 31/12/2020 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/2020 (%)	Market value at 31/12/2020 (millions of euros)
Bonds issued by Telecom Italia Finance and guaranteed by TIM S.p.A.								
Euro	1.015	1.015	7,750 %	24/01/2003	24/01/2033	109,646[*]	148,031	1.503
Total								**1.503**

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

The following table lists the changes in bonds during 2020:
Repayments

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

Amounts due to banks (medium/long term) of 103 million euros (142 million euros at December 31, 2019) decreased by 40 million euros, mainly as net result of new loans and the transfer to the current portion.

As at December 31, 2020 **Other financial payables (medium/long-term)** amounted to 158 million euros (164 million euros at December 31, 2019) corresponding to Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totalled 1.149 million euros at December 31, 2020 (1.526 million euros at December 31, 2019). With reference to the financial lease liabilities recognized, in 2020 and 2019 the following is noted:

(million euros)	31/12/2020	31/12/2019
Principal reimbursements	345	168
Cash out interest portion	135	143
Total	**480**	**311**

Non-hedging derivatives relating to items classified as current and non-current financial liabilities totaled 634 million euros (589 million euros at December 31, 2019). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

Short-term amounts due to banks totalled 490 million euros (359 million euros at December 31, 2019) and included 251 million euros of the current portion of medium/long-term amounts due to banks.

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

Note 16 - Net financial debt

The following table shows the net financial debt at December 31, 2020 and 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).

(million euros)	31/12/2020	31/12/2019
Non-current financial liabilities	**3.038**	**3.416**
Current financial liabilities	**756**	**896**
Total gross financial debt	**3.794**	**4.312**
Non-current financial assets	**-26**	**-35**
Non-current financial receivables for lease contract	-25	-34
Non-current hedging derivatives	-1	-1
Current financial assets	**-4.239**	**-4.077**
Securities other than investments	-1.092	-877
Financial receivables and other current financial assets	-145	-542
Cash and cash equivalents	-3.001	-2.658
Net financial debt as per ESMA	**-471**	**200**
Non-current financial assets	**-1.882**	**-1.892**
Other financial receivables and other non-current financial assets	-1.882	-1.892
Net financial debt [*]	**-2.353**	**-1.692**

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

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

(million euros)		Cash movements		Non-cash movements			
	31/12/2019	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	31/12/2020
Financial payables (medium/long-term):	**1.700**	**306**	**-307**	**-88**	**—**	**3**	**1.614**
Bonds	1.312	—	-170	-52	—	-4	1.086
Amounts due to banks	222	306	-137	-30	—	7	368
Other financial payables	166	—	—	-6	—	—	160
of which short-term portion	*382*	—	*-45*	*-96*	—	*100*	*341*
Finance lease liabilities (medium/long-term):	**1.719**	**241**	**-157**	**-506**	**—**	**18**	**1.314**
of which short-term portion	*193*	*187*	*-157*	*-58*	—	*1*	*166*
Other financial liabilities (medium/long-term):	**590**	**—**	**—**	**-40**	**80**	**4**	**634**
Non-hedging derivatives	590	—	—	-40	80	4	634
of which short-term portion	*17*	—	—	*1*	—	—	*18*
Financial payables (short-term):	**303**	**—**	**-72**	**-1**	**—**	**—**	**231**
Amounts due to banks	279	—	-54	—	—	—	225
Other financial payables	24	—	-18	-1	—	—	6
Total financial liabilities (gross financial debt)	**4.312**	**547**	**-536**	**-634**	**80**	**25**	**3.793**
Positive hedging derivatives (current and non-current)	1	—	—	—	-1	—	1
Positive non-hedging derivatives (current and non-current)	658	—	—	6	106	—	769
Total	**3.653**	**547**	**-536**	**-640**	**-25**	**25**	**3.023**

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

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

Note 17 - Financial risk management

Financial risk management objectives and policies of the Group
The Group is exposed to the following financial risks in the ordinary course of its business operations:
- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of non-fulfilment of obligations undertaken by the counterparty with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

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

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

Identification of risks and analysis
The Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates, or has bond issues, principally Europe and Latin America.
The financial risk management policies of the Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.
At TIM Group level is set an optimum composition for the fixed-rate and variable-rate debt structure and it has been decided the use of derivative financial instruments to achieve that set composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been set, on the basis of the nominal amount, in the range 65%-75% for the fixed-rate component and 25%-35% for the variable-rate component.
In managing market risk, the Group mainly uses the following financial derivatives:
- Interest Rate Swaps (IRS), to modify the profile of the original exposure to interest rate risks on loans and bonds, both fixed and variable;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards, to convert loans and bonds issued in currencies other than euro to the functional currencies of the operating companies.

Derivative financial instruments may be designated as fair value hedges for managing exchange rate and interest rate risk on instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-set the exchange rate of future transactions and the interest rate.
All derivative financial instruments are entered into with banking and financial counterparties with at least a "BBB-" rating from Standard & Poor's or an equivalent rating, and an outlook that is not negative. The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:
- sensitivity analyses were performed by applying reasonably likely changes in the relevant risk variables to the amounts in the Consolidated Financial Statements at December 31, 2020;
- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39 and IFRS 9, they are accounted for at their fair value through profit and loss. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk. The Group has not applied fair value hedge accounting for the year ended 31 December 2020;
- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly, they are included in this analysis;

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

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 exchange 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 the changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in line with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2020 the interest rates in the various markets in which the Group operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the income tax effect, would have been recognized in the income statement of 4 million euros (5 million euros at December 31, 2019).

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

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

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

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

Liquidity risk

The Group pursues the objective of achieving an "adequate level of financial flexibility" which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2020, together with unused committed bank lines, are sufficient to fully cover the Group's financial liabilities due at least for the next 24 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2020. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements as at December 31, 2020:

	maturing by 31/12 of the year:						
(million euros)	2021	2022	2023	2024	2025	After 2025	Total
Bonds							
Principal	—	—	—	—	—	1.015	1.015
Interest Portion	79	79	79	79	79	629	1.023
Loans and other financial liabilities							
Principal	264	76	9	14	4	158	525
Interest Portion	-30	9	3	—	4	18	3
Finance lease liabilities							—
Principal	165	170	169	164	92	555	1.314
Interest Portion	111	97	84	72	61	254	679
Non-current financial liabilities							
Principal	**429**	**245**	**178**	**177**	**96**	**1.728**	**2.854**
Interest Portion	**159**	**185**	**166**	**151**	**144**	**901**	**1.706**
Current financial liabilities							
Principal	**230**	—	—	—	—	—	**230**
Interest Portion	**3**	—	—	—	—	—	**3**
Total Financial liabilities							
Principal	**658**	**245**	**178**	**177**	**96**	**1.728**	**3.083**
Interest Portion	**163**	**185**	**166**	**151**	**144**	**901**	**1.709**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2020:

	maturing by 31/12 of the year:						
(million euros)	2021	2022	2023	2024	2025	After 2025	Total
Disbursements	1	1	1	1	1	4	9
Receipts	-1	-1	-1	-1	-1	-5	-10
Hedging derivatives – net disbursements (receipts)	—	—	—	—	—	**-1**	**-2**
Disbursements	350	197	123	118	99	839	1.726
Receipts	-394	-201	-130	-128	-105	-861	-1.820
Non-Hedging derivatives – net disbursements (receipts)	-44	-4	-7	-10	-6	-23	-94
Total net disbursements (receipts)	**-44**	**-4**	**-8**	**-10**	**-6**	**-23**	**-96**

Market value of derivatives

In order to determine the fair value of derivatives, the Group uses various valuation models.

The mark-to-market calculation is determined by the present value discounting of the interest and notional future contractual flows using market interest rates and exchange rates.

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

Note 18 - Derivatives

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

Derivative financial instruments are used by the Group to hedge its exposure to foreign exchange rate risk, to manage interest rate risk and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.
Derivative financial instruments in place at December 31, 2020 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), currency forwards and foreign exchange options to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

In carrying out its role of providing financial assistance to TIM Group companies, Telecom Italia Finance aggregates all the exposure with some banking counterparties in just one entity. As a consequence, the Group has derivative contracts signed with banks and analogous intercompany derivative contracts with other TIM Group companies for a notional amount of 3.362 million euros (3.030 at December 31, 2019).
The balance of asset and liability measurements of these contracts is equal to zero.

The following tables show the derivative financial instruments of the Group at December 31, 2020 and 2019, by type:

Type(million euros)	Hedged risk	Notional amount at 31/12/2020	Notional amount at 31/12/2019	Spot Mark-to-Market (Clean Price) at 31/12/2020	Spot Mark-to-Market (Clean Price) at 31/12/2019
Cross Currency and Interest Rate Swap [*]	Interest rate risk and currency exchange rate risk	139	139	1	1
Total Cash Flow Hedge Derivative [**]		**139**	**139**	**1**	**1**
Total Non-Hedge Accounting Derivatives [***]		**4.125**	**3.346**	**107**	**65**
Total Telecom Italia Finance Group Derivatives		**4.264**	**3.485**	**108**	**66**

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

The hedging of cash flows by cash flow hedges was considered highly effective and at December 31, 2020 led to recognition in equity of unrealized gains of 1 million euros (1,5 million euros as at December 31, 2019).

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

Currency of denomination	Notional amount in currency of denomination (million)	Start of period	End of period	Rate applied	Interest period
USD	186	Jan-21	Oct-29	0,75 %	Semiannually

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In essence, the portfolio risk must be significantly less than the risk of the hedged item.

No material ineffective portion has been recognized in the income statement from designated cash flow hedge derivatives during 2020.

Note 19 - Supplementary disclosures on financial instruments

Measurement at fair value

For the purposes of the comparative information between the carrying amounts and the fair value of financial instruments, required by IFRS 7, for the Parent's bond included in non-current financial liabilities, the fair value is directly observable in the financial markets, as it is a financial instrument that, due to its size and diffusion among investors, is commonly traded on the relevant markets (see the Note "Financial Liabilities (non-current and current)"). For other types of financing, the fair value has been assumed to be equal to nominal repayment amount (level 3). For the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash or loans towards Ultimate Parent Company and other TIM Group companies.

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

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

Further details on Level 2 inputs are provided in the Note *Derivatives".

The tables below provide additional information on the financial instruments, including the hierarchy level for each class of financial asset/liability measured at fair value at December 31, 2020.

The assets and liabilities at December 31, 2020 are presented based on the categories established by IFRS 9.

Key for IFRS 9 categories

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

Classification and fair value hierarchy of financial instruments measured at fair value as at December 31, 2020:

				Levels of hierarchy	
(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2020	Level1	Level2
ASSETS					
Non-current assets					
Other investments	FVTOCI	[8]	48	48	—
Securities, financial receivables and other non-current financial assets:					
Hedging derivatives	HD[*]	[9]	1	—	1
Non-hedging derivatives	FVTPL	[9]	700	—	700
(a)			**749**	**48**	**701**
Current assets					
Securities other than investments, measured at:					
Fair value through other comprehensive income	FVTOCI	[9]	768	768	—
Fair value through profit or loss	FVTPL	[9]	325	325	—
Financial receivables and other current financial assets:					
Non-hedging derivatives	FVTPL	[9]	68	—	68
(b)			**1.161**	**1.092**	**68**
Total (a+b)			**1.909**	**1.140**	**769**
LIABILITIES					
Non-current liabilities					
Non-hedging derivatives	FVTPL	[15]	616	—	616
(c)			**616**	**—**	**616**
Current liabilities					
Non-hedging derivatives	FVTPL	[15]	18	—	18
(d)			**18**	**—**	**18**
Total (c+d)			**634**	**—**	**634**

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

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

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

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

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

Carrying amount and fair value of financial instruments not measured at fair value as at December 31, 2020:

					Levels of hierarchy		
(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2020	Fair Value at 31/12/2020	Level1	Level3	Amounts recognized in the financial statements pursuant to IFRS 16
ASSETS							
Non-current assets							
Other financial receivables	AC	[9]	1.182	1.182	—	1.182	—
Miscellaneous receivables	AC	[10]	132	132	—	132	—
Financial receivables for lease contracts	n/a	[9]	25	25	—	—	25
(a)			**1.339**	**1.339**	**—**	**1.314**	**25**
Current assets							
Other short-term financial receivables	AC	[9]	76	76	—	76	—
Cash and cash equivalents	AC	[9]	3.001	3.001	—	3.001	—
Trade and miscellaneous receivables	AC	[13]	499	499	—	499	—
Financial receivables for lease contracts	n/a	[9]	1	1	—	—	1
(b)			**3.577**	**3.577**	**—**	**3.577**	**1**
Total (a+b)			**4.916**	**4.916**	**—**	**4.891**	**25**
LIABILITIES							
Non-current liabilities							
Financial payables	AC	[15]	1.273	1.763	1.503	261	—
Finance lease liabilities	n/a	[15]	1.149	1.149	—	—	1.149
(c)			**2.422**	**2.912**	**1.503**	**261**	**1.149**
Current liabilities							
Financial payables	AC	[15]	572	572	—	572	—
Trade and miscellaneous payables and other current liabilities	AC	[22]	581	581	—	581	—
Finance lease liabilities	n/a	[15]	166	166	—	—	166
(d)			**1.319**	**1.319**	**—**	**1.153**	**166**
Total (c+d)			**3.741**	**4.231**	**1.503**	**1.414**	**1.315**

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

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

Gains and losses by IFRS 9 category - Year 2020

(million euros)	IFRS 9 Categories	Net gains/(losses) 31/12/2020	of which interest
Amortized Cost	AC	-114	-5
Fair Value Through Profit or Loss	FVTPL	87	—
Fair Value Through Other Comprehensive Income	FVTOCI	3	—
Total		**-24**	**-5**

Gains and losses by IFRS 9 category - Year 2019

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

Note 20 - Provisions

(million euros)	31/12/2019	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2020
Provision for taxation and tax risks	**74**	7	—	-2	-16	**63**
Provision for restoration costs	**9**	—	—	—	-3	**5**
Provision for legal disputes	**112**	52	—	-55	-32	**76**
Other provisions	**1**	—	—	—	—	**1**
Total	**196**	**59**	**—**	**-57**	**-52**	**146**
of which:						**—**
non-current portion	**187**	64	—	-57	-50	**144**
current portion	**9**	-6	—	—	-2	**1**

Provision for taxation and tax risks. The figure at December 31, 2020 mainly related to companies in the Brazil Business Unit (63 million euros *vs*. 74 million euros at December 31, 2019).

Provision for legal disputes includes the provision for litigation with employees, social security entities, regulatory authorities and other counterparties and refers to the Brazil Business Unit. The uses consisted of 55 million euros and resulted from settlement agreements reached.

Note 21 - Miscellaneous payables and other non-current liabilities

(million euros)	31/12/2020	31/12/2019
Other deferred income	118	182
Income tax payables	31	42
Other	8	12
Total	**157**	**237**

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

Other deferred income includes the non-current portion of approximately 115 million euros in 2020 (174 million euros as at December 31, 2019) of deferred gain on the sale and lease back of the telecommunication towers of the Brazil Business Unit.

Note 22 - Trade and miscellaneous payables and other current liabilities

(million euros)	31/12/2020	Of which Financial Instruments	31/12/2019	Of which Financial Instruments
Trade payables	**546**	**546**	**942**	**942**
Payables to suppliers	523	523	912	912
Payables to other telecommunication operators	22	22	31	31
Tax payables	**103**	**—**	**136**	**—**
Miscellaneous payables	**154**	**33**	**108**	**49**
Payables for employee compensation	31		34	
Payables to social security agencies	10		12	
Payables for TLC operating fee	79		4	
Dividends approved, but not yet paid to shareholders	33	33	49	49
Provisions for risks and charges for the current portion expected to be settled within 1 year	1		9	
Other current liabilities	**43**	**3**	**64**	**4**
Deferred revenues from customer contracts (Contract liabilities)	4	3	9	4
Customer-related items	27	—	37	—
Other deferred income	11		16	
Advances received	1		1	
Other current liabilities	—	—	—	—
Total	**845**	**581**	**1.249**	**996**

Trade payables amounting to 546 million euros as at December 31, 2020 (942 million euros at December 31, 2019) are mainly referred to the Brazil Business Unit (544 million of euros).

Tax payables amounting to 103 million euros as at December 31, 2020 are entirely referred to the Brazil Business Unit (136 million euros at December 31, 2019).

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

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

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

A description is provided below of the most significant judicial, arbitration and tax disputes in which the Group companies are involved as at December 31, 2020, as well as those that came to an end during the financial year.

SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes
As of 31 December 2020, the companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totalling around 16,6 billion reais (around 2,8 billion euros). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes
On March 22, 2011, TIM Celular S.A. (company incorporated into TIM S.A. starting from October 31, 2018) was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1.265 million reais (198 million euros as at December 31, 2020) as of the date of the notification, including fines and interest, as a result of the completion of a tax investigation concerning financial years 2006, 2007, 2008 and 2009 for the companies TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A. (formerly Maxitel), companies which have been progressively incorporated into TIM Celular with the aim of rationalizing the corporate structure in Brazil.
The assessment notice includes various adjustments; the main challenges may be summarized as follows:

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

The adjustments included in the assessment notice were disputed by TIM Celular, in administrative court, with the filing of its first objections on April 20, 2011. On April 20, 2012, TIM Celular received notification of the decision of the administrative court of first instance which confirmed the findings set out in the assessment notice; TIM Celular promptly filed an appeal against this decision on May 21, 2012.
The Company, as confirmed by specific legal opinions, believes it is unlikely that significant disbursements can be expected.
Still in relation to the federal level of taxation, the following additional disputed should also be noted:

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

Overall, the risk for these cases, considered to be possible, amounts to 4,3 billion reais (about 0,7 billion euros).

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

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

In February 2018 the State of São Paulo notified two tax assessments regarding ICMS to TIM Celular, for a total amount of 679 million reais (around 106 million euros; at the date of the assessment, including fines and interest). The first assessment (344 million reais or 54 million euros) regarded a challenge of ICMS credits in relation to acting as a withholding agent, applicable when equipment is bought and distributed in different

States. The second assessment (335 million reais or 53 million euros) challenged ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers, against subsequent top-ups.
In June 2018 the State of São Paulo notified two further tax assessments to TIM Celular, again relating to ICMS, for a total amount of 369 million reais (58 million euros; at the date of the assessment, including fines and interest). This assessment too relates to ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers against subsequent top-ups, as well as to the fines imposed for ICMS breaches. For a minor part of the claim, the company decided to authorize payment of the amount requested, instead of starting legal proceedings, benefiting from a discount on the fine. The dispute thus continues for the remaining amount, 296 million reais (around 46 million euros).
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 (57 million euros; 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 (about 1,3 billion euros).

Municipal taxes
Among disputes classified with a "possible" degree of risk, there are some relating to municipal taxes for a total amounting to around 0,7 billion reais (about 0,1 billion euros).

FUST and FUNTTEL
The main challenges about contributions to the regulatory body (Anatel), and in particular in terms of FUST and FUNTTEL, concern whether or not interconnection revenues should be subject to these contributions.
Overall, the risk for these cases, considered to be possible, amounts to 3 billion reais (around 0,5 billion euros).

Exclusion of ICMS from the PIS/COFINS tax base
In March 2017, the Supreme Federal Court of Brazil recognized the inclusion of ICMS in the calculation of the PIS/COFINS contribution as unconstitutional. The companies of the TIM Brasil Group (formerly TIM Nordeste, TIM Celular and TIM S.A.) have been involved in legal proceedings since 2006, with reimbursement requests related - as allowed - to the previous five years, and therefore with effect from 2001.
During 2018, following a definitive and indisputable decision, the Company recognized a receivable of 353 million reais (around 0,1 billion euros), of which 159 million reais (around 0,02 billion euros) for tax and 194 million reais (around 0,03 billion euros) for legal revaluations (amounts relating to the then TIM Nordeste).
During the year 2019, as a result of two final decisions (TIM Celular S.A. and TIM S.A.), the company has posted an additional receivable of 3.024 million reais (around 0,5 billion euros), of which 1.795 million reais (around 0,3 billion euros) for tax and 1.229 million reais (around 0,2 billion euros) 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.

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 Board of Arbitration rejected all the claims made by the Opportunity group and decided that the legal costs, administrative costs and costs for expert witnesses should be split between the parties (the "2016 Arbitration Award").
In April 2017 the Opportunity group filed an appeal against the arbitration award before the Paris Court of Appeal.
In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC’s International Court of Arbitration notice of a Request for Revision of the arbitration finding, filed by the Opportunity group, asking for a new ruling. A Board of Arbitration was subsequently established.
In October 2018, TIM and Telecom Italia Finance requested proceedings with the Paris Court of Appeal to be suspended, in the light of proceedings pending with the Court of Arbitration of the International Chamber of Commerce to review the same 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.

COMMITMENTS AND GUARANTEES

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

(million euros)	31/12/2020	31/12/2019
Guarantee on bonds and other debts issued by the Group	1.173	1.179
Guarantee on derivatives financial instruments	251	203
Total	**1.424**	**1.382**

There are also surety bonds on the telecommunication services in Brazil for 81 million euros.

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

ASSETS PLEDGED TO GUARANTEE FINANCIAL LIABILITIES

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 24 - Revenues

(million euros)	Year 2020	Year 2019
Equipment sales	102	177
Services	2.830	3.760
Total	**2.933**	**3.937**

Revenues only relates to the Brazil Business Unit.

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 130 million euros in 2020 (139 million euros in 2019, -7% change), included in the costs of services.

Note 25 - Other income

(million euros)	Year 2020	Year 2019
Late payment fees charged for telephone services	6	11
Brazil Business Unit tax proceeds	—	685
Other income	6	12
Total	**12**	**708**

Other income only relates to the Brazil Business Unit. In 2019, tax proceeds included, among others, the income related to the recognition 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 26 - Purchase of goods and services

(million euros)	Year 2020	Year 2019
Purchase of raw materials and merchandise	**140**	**221**
Costs of services	**777**	**1.042**
Revenues due to other TLC operators	130	139
Commissions, sales commissions and other selling expenses	266	399
Advertising and promotion expenses	64	80
Professional and consulting services	87	105
Utilities	64	82
Maintenance	45	59
Outsourcing costs for other services	62	93
Mailing and delivery expenses for telephone bills, directories and other materials to customers	15	26
Other service expenses	45	59
Lease and rental costs	**155**	**190**
Rent of properties	46	58
TLC circuit lease rents and rents for use of satellite systems	90	112
Other lease and rental costs	18	20
Total	**1.072**	**1.453**

Note 27 - Employee benefits expenses

(million euros)	Year 2020	Year 2019
Wages and salaries	163	203
Social security expenses	41	67
Other employee benefits	33	55
Total	**238**	**324**

The employee benefits expenses are mainly related to the Brazil Business Unit for 236 million euros (323 million euros in 2019).

Note 28 - Other operating expenses

(million euros)	Year 2020	Year 2019
Write-downs and expenses in connection with credit management	94	170
Provision charges	44	101
TLC operating fees and charges	155	219
Indirect duties and taxes	10	12
Penalties, settlement compensation and administrative fines	—	—
Association dues and fees, donations, scholarships and traineeships	1	1
Sundry expenses	17	22
Total	**322**	**525**
of which, included in the supplementary disclosure on financial instruments	*94*	*170*

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

Note 29 - Internally generated assets

(million euros)	Year 2020	Year 2019
Intangible assets with a finite useful life	23	27
Tangible assets owned	56	70
Total	**79**	**97**

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

Note 30 - Depreciation and amortization

(million euros)	Year 2020	Year 2019
Amortization of intangible assets with a finite useful life	**308**	**418**
Industrial patents and intellectual property rights	214	318
Concessions, licenses, trademarks and similar rights	93	99
Other intangible assets	1	1
Depreciation of tangible assets owned	**430**	**511**
Buildings (civil and industrial)	1	1
Plant and equipment	388	459
Other	41	51
Depreciation of right of use assets	**202**	**236**
Property	53	63
Plant and equipment	147	170
Other	2	3
Total	**939**	**1.165**

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

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

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

(million euros)	Year 2020	Year 2019
Gains on disposals of non-current assets	**9**	**12**
Gains on the retirement/disposal of intangible and tangible assets	9	12
Losses on disposals of non-current assets	**(1)**	**(1)**
Losses on the retirement/disposal of intangible and tangible assets	(1)	(1)
Total	**8**	**11**

In 2020, the item posted a net gain of 8 million euros, connected with the ordinary asset renewal process.

Note 32 - Finance income and expenses

FINANCE INCOME

(million euros)	Year 2020	Year 2019
Interest income and other finance income	**341**	**316**
Income from financial receivables, recorded in non-current assets	85	88
Interest income on bank and postal accounts	16	21
Interest income on trade accounts receivable	5	8
Income from securities other than investments measured at FVTOCI	5	5
Income other than the above:		
Interest income on financials leasing receivables	3	5
Exchange gains	68	33
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Income from non-hedging derivatives	134	138
Miscellaneous finance income	25	16
Positive fair value adjustments to non-hedging derivatives	**201**	**113**
Positive adjustments and reversal for impairment on financial assets	**3**	**8**
Total	**545**	**437**

FINANCE EXPENSES

(million euros)	Year 2020	Year 2019
Interest expenses and other finance expenses	**559**	**604**
Interest expenses and other costs relating to bonds	82	92
Interest expenses to banks	17	18
Interest expenses to others	11	11
Interest expenses on lease liabilities	135	195
Expenses other than the above:		
Financial commissions and fees	18	17
Exchange losses	108	30
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Charges from non-hedging derivatives	132	135
Miscellaneous finance expenses	55	105
Negative fair value adjustments to non-hedging derivatives	**123**	**115**
Negative adjustments for impairment on financial assets	**2**	**9**
Total	683	728

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

(million euros)	Year 2020	Year 2019
Exchange gains	68	33
Exchange losses	-108	-30
Net exchange gains and losses	**-40**	**3**
Positive Reversal of the Reserve for cash flow hedge derivatives	1	1
Negative Reversal of the Reserve for cash flow hedge derivatives	-1	-1
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**—**	**—**
Income from non-hedging derivatives	134	138
Charges from non-hedging derivatives	-132	-135
Net result from non-hedging derivatives	2	3
Net result from derivatives	**2**	**3**
Positive fair value to non-hedging derivatives	201	113
Negative fair value adjustments to non-hedging derivatives	-123	-115
Net fair value adjustments to non-hedging derivatives	**78**	**-2**
Positive adjustments and reversal for impairment on financial assets	3	8
Negative adjustments for impairment on financial assets	-2	-9
Net impairment on financial assets	**1**	**-2**

Note 33 - Segment reporting

SEGMENT REPORTING

Segment reporting is based on the following operating segments:
- Telecommunications (Brazil)
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(million euros)	Brazil		Other Operations		Consolidated Total	
	Year 2020	Year 2019	Year 2020	Year 2019	Year 2020	Year 2019
Third-party revenues	2.933	3.937	—	—	2.933	3.937
Revenues by operating segment	**2.933**	**3.937**	**—**	**—**	**2.933**	**3.937**
Other income	12	708	—	—	12	708
Total operating revenues and other income	**2.944**	**4.645**	**—**	**—**	**2.945**	**4.645**
Purchase of goods and services	-1.070	-1.451	-2	-2	-1.072	-1.453
Employee benefits expenses	-236	-323	-1	-1	-238	-324
Other operating expenses	-318	-521	-4	-4	-322	-525
of which: write-downs and expenses in connection with credit management and provision charges	*-132*	*-248*	—	—	*-132*	*-248*
Change in inventories	7	5	—	—	7	5
Internally generated assets	79	97	—	—	79	97
EBITDA	**1.407**	**2.452**	**-7**	**-7**	**1.400**	**2.445**
Depreciation and amortization	-939	-1.165	—	—	-939	-1.165
Gains/(losses) on disposals of non-current assets	8	11	—	—	8	11
EBIT	**476**	**1.298**	**-7**	**-7**	**469**	**1.291**
Other income (expenses) from investments					1	—
Finance income					545	437
Finance expenses					-683	-728
Profit (loss) before tax					**332**	**1.000**
Income tax income (expense)					-44	-208
Profit (loss) for the year					**288**	**792**
Attributable to:						
Owners of the Parent					184	519
Non-controlling interests					104	272

Revenues by operating segment
The revenues only relate to the Brazil Business Unit.

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

Assets and liabilities by Operating Segment

(millions of euros)	Brazil		Other Operations		Consolidated Total	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current operating assets	5.098	7.498	1	1	5.098	7.499
Current operating assets	772	1.055	47	70	819	1.125
Total operating assets	**5.870**	**8.553**	**48**	**71**	**5.918**	**8.624**
Unallocated assets					**6.345**	**6.188**
Total Assets					**12.263**	**14.812**
Total operating liabilities	**1.144**	**1.669**	**4**	**6**	**1.148**	**1.675**
Unallocated liabilities					*3.812*	*4.357*
Equity					7.303	8.780
Total Equity and Liabilities					**12.263**	**14.812**

Note 34 - Related party transactions

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

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

The effects on the individual line items of the Group's Separate Consolidated Income Statements for the years 2020 and 2019 are as follows:

Separate Consolidated Income Statement line items 2020

(million euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**2.933**	—	1	—	—	1	0,1
Other income	**12**	—	—	—	—	—	1,5
Purchase of goods and services	**1.072**	—	62	—	—	62	5,8
Employee benefits expenses	**238**	—	—	4	6	10	4,1
Other operating expenses	**322**	—	—	—	—	—	—
Finance income	**545**	—	234	—	—	234	43,0
Finance expenses	**683**	—	107	—	—	107	15,7

Separate Consolidated Income Statement line items 2019

(million euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**3.937**	—	2	—	—	2	0,1
Other income	**708**	—	—	—	—	—	—
Purchase of goods and services	**1.453**	—	91	—	—	91	6,3
Employee benefits expenses	**324**	—	—	4	5	9	2,8
Other operating expenses	**525**	—	—	—	—	—	—
Finance income	**437**	—	215	—	—	215	49,2
Finance expenses	**728**	—	127	—	—	127	17,4

The effects on the individual line items of the consolidated statements of financial position at December 31, 2020 and 2019 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2020

(million euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-2.353**	**—**	**-1.273**	**—**	**-1.273**	**54,1**
Non-current financial assets	**-1.907**	**—**	**-1.475**	**—**	**-1.475**	**77,3**
Current financial assets	**-4.239**	**—**	**-179**	**—**	**-179**	**4,2**
Securities other than investments (current assets)	**-1.092**	—	—	—	—	**—**
Financial receivables and other current financial assets	**-145**	—	-84	—	-84	**57,7**
Cash and cash equivalents	**-3.001**	—	-95	—	-95	**3,2**
Non-current financial liabilities	**3.038**	**—**	**364**	**—**	**364**	**12,0**
Current financial liabilities	**756**	**—**	**17**	**—**	**17**	**2,2**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**807**	—	1	—	1	**0,1**
Miscellaneous payables and other non-current liabilities	**157**	—	—	—	—	**—**
Trade and miscellaneous payables and other current liabilities	**845**	—	19	—	19	**2,3**

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

(million euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-1.692**	**—**	**-2.229**	**—**	-2.229	**131,7**
Non-current financial assets	**-1.927**	**—**	**-1.515**	**—**	**-1.515**	**78,6**
Current financial assets	**-4.077**	**—**	**-1.122**	**—**	**-1.122**	**27,5**
Securities other than investments (current assets)	**-877**	—	—	—	**—**	—
Financial receivables and other current financial assets	**-542**	—	-525	—	**-525**	96,9
Cash and cash equivalents	**-2.658**	—	-597	—	**-597**	22,5
Non-current financial liabilities	**3.416**	**—**	**372**	**—**	**372**	**10,9**
Current financial liabilities	**896**	**—**	**36**	**—**	**36**	**4,0**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**1.122**	—	5	—	5	0,4
Miscellaneous payables and other non-current liabilities	**237**	—	—	—	—	—
Trade and miscellaneous payables and other current liabilities	**1.249**	—	24	—	24	1,9

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(million euros)	Year 2020	Year 2019	Type of contract
Other pension funds	4	4	Contributions to pension funds
Total employee benefits expenses	**4**	**4**	

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

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in 2020 amounted to 6 million euros (5 million euros in 2019). The compensation of key Management personnel for services rendered is shown below:

(million euros)	Year 2020	Year 2019
Short-term benefits	4	4
Long-term benefits	1	—
Share-based payments remuneration	1	1
Total remuneration to key managers	**6**	**5**

The Group considers as key managers the statutory directors and the Board of Directors.

Note 35 - Equity compensation plans

The equity compensation plans in force at December 31, 2020 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.
A summary is provided below of the plans in place at December 31, 2020.

DESCRIPTION OF STOCK OPTION PLANS

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, 1.727.423 were canceled by participants leaving the company. Of the remaining balance of 2.194.781 options, 1.899.718 options had been exercised and 295.063 could still be exercised.

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.

Parameters used for the assignments of TIM S.A. (formerly Tim Participações S.A.)

Plans/Parameters	Exercise price (reais)	Nominal value (reais)	Volatility (%)	Period	Risk-free interest rate
Stock option plan 2011	8,84	n/a	51,73	6 years	11,94% per annum
Stock option plan 2012	8,96	n/a	50,46	6 years	8,89% per annum
Stock option plan 2013	8,13	n/a	48,45	6 years	10,66% per annum
Stock option plan 2014	13,42	n/a	44,60	6 years	10,66% per annum
Stock option plan 2015	8,45	n/a	35,50	6 years	16,10% per annum
Stock option plan 2016	8,10	n/a	36,70	6 years	11,73% per annum
2018 PS/RS Plan	n/a	14,41	n/a	3 years	n/a
2019 PS/RS Plan	n/a	11,28	n/a	3 years	n/a
2020 PS/RS Plan	n/a	14,40	n/a	3 years	n/a

The parameters are characteristic of a stock option plan, considering the use of fair value appropriate only for Stock Option Plans.

Note 36 - Other information

EXCHANGE RATE USED TO TRANSLATE FOREIGN OPERATIONS

	Period-end exchange rates (statements of financial position)		Average exchange rates for the period (income statements and statements of cash flows)	
Local currency against 1 EUR	31/12/2020	31/12/2019	31/12/2020	31/12/2019
ARS (Argentine peso)	103,24940	67,27490	80,83685	53,80911
BRL (Brazilian real)	6,37680	4,52808	5,88806	4,41422
CHF (Swiss franc)	1,08020	1,08540	1,07047	1,11263
GBP (Pound sterling)	0,89903	0,85080	0,88940	0,87750
JPY (Japan Yen)	126,49000	121,94000	121,81378	122,05500
USD (U.S. dollar)	1,22710	1,12340	1,14179	1,11954

RESEARCH AND DEVELOPMENT

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

(million euros)	Year 2020	Year 2019
Development costs capitalized	23	27
Total research and development costs (expensed and capitalized)	**23**	**27**

AUDITOR'S FEES

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

(thousands of euros)	Year 2020	Year 2019
Audit services	1.132	1.347
Verification services with issue of certification	35	20
Other assurance services	52	7
Total fees due to EY network for the audit and other services	**1.220**	**1.374**
Out of pocket	64	64
Total	**1.283**	**1.438**

Note 37 - Events subsequent to December 31, 2020

Payment of Interest on Equity
On January 2021, TIM S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2020 and approved on 2020 according to the following schedule:

Payment Date	Reais per share
22/01/2021	0,102353024

Result of Oi Mobile Assets Auction
As a result of the OI Mobile assets auction described in the highligths of the Directors report, TIM S.A. will be entrusted with the following:

- Customers: approximately 14,5 million customers (corresponding to 40% of UPI Ativos Móveis' total customer base) - according to Anatel's access base of Apr/20. The allocation of customers among the Buyers took into consideration criteria that favor competition among the operators present in the Brazilian market;
- Radiofrequency: approximately 49 MHz as a national average weighted by population (54% of UPI Ativos Móveis radiofrequencies). The division of frequencies between Buyers strictly respects the spectrum limits per group established by Anatel;
- Infrastructure: approximately 7,2 thousand mobile access sites (corresponding to 49% of total UPI Ativos Móveis sites).

Conclusion of TAC with ANATEL
On June 19th, the Company's Board of Directors approved the execution of a Conduct Adjustment Term (TAC), between the Agência Nacional de Telecomunicações (ANATEL) and TIM S.A., after the Regulator's final decision at the 8th Extraordinary Meeting of its Director Board, occurred on the previous day. The agreement, which is in the full phase of execution, as planned by the Company and under the strict monitoring of ANATEL, covers sanctions totaling approximately R$ 639 million, which will be filed due to assumed commitments and which may be represented in actions to improve quality and customer experience, evolution of digital service channels, reduction of complaint rates, as well as increase of network infrastructure in more than 2.000 locations. The company also made an additional commitment to take mobile broadband through the 4G network to around 350 municipalities with less than 30 thousand inhabitants. Three million people will benefit in the Northeast and North regions of the country, as well as in the northern of Minas Gerais and in Goiás, in cities where fourth generation technology is not yet available.

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 R$ 5,3 billion in total assets and transacts in its payment platform more than R$ 1,5 billion 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.

Although occurred in 2020, effects of the operations above will be deployed in 2021 and beyond.

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

Company name	Head office	Currency	Share Capital	% Ownership	% of voting	Held by
PARENT COMPANY						
Telecom Italia Finance	Luxembourg	EUR	1.818.691.979			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
Brazil Business Unit						
• TIM Brasil Serviços & Partecipações S.A.	Rio de Janeiro	BRL	7.169.029.859	99,9999 0,0001		Telecom Italia Finance TIM S.p.A.
• TIM S.A.	Rio de Janeiro	BRL	13.476.171.765	66,5882 0,0164	66,5991	TIM Brasil Serviços & Partecipações S.A. TIM S.A.
• Fiberco Soluções de infraestrutura Ltda	Rio de Janeiro	BRL	1.000	100,0000		TIM S.A.
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
Movenda S.p.A.	Roma	EUR	133.333	24,9998		Telecom Italia Finance
TI Audit Compliance Latam S.A. (in liquidation)	Rio de Janeiro	BRL	1.500.000	69,9996 30,0004		TIM S.p.A. TIM Brasil Serviços & Partecipações S.A.
OTHER RELEVANT SHAREHOLDERS						
TIM S.p.A.	Milano	EUR	11.677.002.855	0,5900		Telecom Italia Finance

Certification of the Consolidated Financial Statements pursuant to Luxembourg Transparency Law

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

Biagio Murciano
Managing Director

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Independent auditor's report

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Telecom Italia Finance S.A. (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

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

Key audit matters

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

Provision for tax contingencies

Risk identified

The Group has tax matters under discussion at various procedural levels, for which, based on its opinion and legal counsel, Euro 2,8 billion were disclosed by the Group as possible losses as disclosed in note 23. The determination of the amount of the provision and the amounts disclosed depends on critical judgments made by management, based on the analysis of the proceedings and the corresponding prognosis for their final resolution by its legal advisors. The audit of management's assessment of the likelihood of loss in tax proceedings is complex, highly subjective and based on interpretations of tax legislation and court decisions, since there is significant uncertainty in the estimates as to the outcome of court decisions, how formerly adjudged cases have evolved and the position of the tax authorities. In addition, in view of the magnitude of the amounts involved, any changes in estimates or assumptions that impact the determination of the loss prognosis may have significant impacts on the Group's financial statements. Accordingly, this was considered as a key audit matter.

Our answer

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

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 25 May 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 year.

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

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Gabriel De Maigret

Luxembourg, 25 March 2021

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Independent auditor's report

To the sole Shareholder of
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Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Telecom Italia Finance S.A. (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

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

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

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

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

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Gabriel De Maigret

Luxembourg, 25 March 2021