Telecom Italia Finance Group

Consolidated Financial Statements 2021

Audited Consolidated Annual Accounts as at December 31, 2021, which have been authorized by the Board of Directors held on March 01, 2022

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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.
    - I-SYSTEM SA

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, 2021:
- 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 -2.888 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(million euros)	31/12/2021	31/12/2020
Revenues	**2.840**	**2.933**
EBITDA	**1.355**	**1.400**
EBIT	**466**	**469**
Profit (loss) before tax from continuing operations	476	332
Profit (loss) for the year	**437**	**288**
Profit (loss) for the year attributable to Owners of the Parent	282	184
Capital expenditures	**1.253**	**661**

Consolidated Financial Position Data

(million euros)	31/12/2021	31/12/2020
Total assets	**14.117**	**12.263**
Total equity	**7.282**	**7.303**
Attributable to Owners of the Parent	5.937	6.070
Attributable to non-controlling interests	1.345	1.233
Total liabilities	**6.835**	**4.960**
Total equity and liabilities	**14.117**	**12.263**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-2.382**	**-2.354**

Headcount

	31/12/2021	31/12/2020
Number in the Group at year end	9.335	9.420
Average number in the Group	8.869	8.718

Highlights

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

The total value of the transaction amounts to 16,5 billion reais (2,6 billion euros) which is summed with the consideration offered to the Oi Group, of approximately 819 million reais (129 million euros), as net present value (NPV) for the Take-or-Pay Data Transmission Capacity Contracts. TIM Brasil will participate in the transaction with an investment of approximately 7,3 billion reais (1,1 billion euros), to be paid at closing, and 476 million reais (75 million euros) relating to TIM Brasil's share of the net present value (NPV) of the contracts. Given the low debt and the favorable market conditions, TIM S.A. believes it can finance the acquisition through cash and the local debt market. However, in the event of any changes in market conditions, TIM S.A. will evaluate all available options.

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

In particular, TIM Brasil will be allocated:

- approximately 14,5 million customers (corresponding to 40% of UPI Ativos Móveis' total customer base), according to Anatel's data of April 2020. The allocation took into consideration criteria that favor competition among the operators present in the Brazilian market;
- approximately 49 MHz as a national average weighted by population (54% of UPI Ativos Móveis radio frequencies). The division of frequencies strictly respects the spectrum limits per group established by Anatel;
- approximately 7,2 thousand mobile access sites (corresponding to 49% of total UPI Ativos Móveis sites).

On February 01, 2022, ANATEL – Agência Nacional de Telecomunicações unanimously granted prior consent to the implementation of the corporate transaction referring to the full transfer of control of the three specific purpose companies ("Mobile Assets SPE" or "SPE"), which correspond to the mobile telephony activities of Oi Móvel SA – Em Recuperação Judicial ("Oi Móvel"), for the companies TIM, Telefônica Brasil S.A. and Claro S.A. ("Transaction").

On February 9, 2022, 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 approved by the antitrust Authority CADE (Conselho Administrativo de Defesa Economica).

The conclusion of the Transaction still depends on the fulfillment of other precedent conditions.

Prior consent provides for certain conditions in line with a transaction of this nature, which mainly aim to guarantee access by small providers to nationwide networks, maintain commitments linked to the transferred radio frequencies, establish the minimum parameters of the communication plan linked to the Transaction and grant users certain rights in the migration steps.

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

Agreement with IHS for an equity stake in FiberCo
In November 2021, once the process of regulatory authorizations was completed, it was concluded the agreement between TIM S.A. and IHS Fiber Brasil - Cessão de Infraestruturas Ltda. ("IHS Brasil") with the purpose of acquiring equity interest in FiberCo Soluções de Infraestrutura S.A. ("FiberCo"), a company incorporated by TIM for the segregation of its network assets and the provision of infrastructure services.
As a result of the transaction closing, IHS Brasil now holds 51% of FiberCo's share capital and controls the company; the remaining 49% is owned by TIM S.A. Contextually, FiberCo has been renamed as I-Systems SA.

The relationship between the partners is regulated by a shareholders' agreement.

The amount of the Transaction has been equal to 1,68 billion reais (264 million euros) divided into a primary component of 0,58 billion reais (91 million euros), destined to FiberCo's cash, and a secondary component of 1,10 billion reais (173 million euros) paid to TIM S.A. FiberCo's Enterprise Value was set at 2,71 billion reais (426 million euros) and the equity value after the contribution of the primary component was set at 3,29 billion reais (517 million euros). The transaction also contemplates possible additional gains derived from an earn-out component.
Additionally, within the scope of the Transaction, TIM and FiberCo executed an agreement for the development of Fiber-to-the-Site (FTTS) infrastructure to connect TIM sites in areas where FiberCo will deploy the new broadband access infrastructure in optical fiber.

Parent's activity
In 2021 the Parent's activities continue to be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.
On November 23, 2021 the Board of Directors of TI Finance resolved to distribute an interim dividend in the amount of 384,1 million euros, partly in kind and partly cash by using the non-distributed profit of year 2009 to 2014 . According to such resolution, on November 26, 327,2 million euros were paid cash. The amount in kind has been paid distributing all the no. 126.082.374 TIM S.p.A. ordinary shares in portfolio, for a countervalue of 56,9 million euros.

THE MARKET

After almost a full year impacted by the pandemic, following the release of several different vaccines, the world is slowing getting back to pre-COVID19 life. According to the IMF data, during 2021, just after a -3,1% change in 2020, the world's GDP has risen 5,9% and is now expected to rise 4,4% in 2022.
Between 2020 and 2021, central banks all over the world have been fueling this rise flooding the world with liquidity that has been poured in the financial markets. Consequently, 2021 has been a memorable year for the financial markets. S&P 500 closed the year up by more than 25% and YoY GDP change of many countries were higher than any of the last 10-15 years.
Real economy has struggled though, the spread of the new variants (Delta, Omicron) has kept offices and businesses closed or only partially open and spending has been re-directed to services that could be used remotely or at home.
Most countries have been forced to increase debt to finance aids for small and medium enterprises. EU has brought the ration between debt and GBP close to 100% from ~85% in pre-pandemic. US lawmakers have voted in December 2021 an increase of the debt ceiling to borrow enough to finance Biden's plan for 2022 and to pay off COVID19 spending.
The macroeconomic context in Brazil during 2021 was characterized by a restart of economic activities after a year spent between lockdown and social and economic restrictions.
From this point of view, an emerging market (EM) with an economy positioned upstream in many production chains, with a role as a supplier of raw materials for many markets, was in a perfect position to exploit the inflation that would have resulted from the mismatch between demand (charged of all consumption "postponed" during the COVID 19 pandemic) and an offer still in the restart.
During 2021, the hope born with vaccines had to clash, at least initially, with the new variants (Delta, Omicron) which have limited the possibilities of consumption and spending, decreasing the effects previously described on the Brazilian economy. Simultaneously with the appearance of these new variants and the wave of risk-offs that hit the markets, BRL has reached its minimum in terms of value compared to EUR (6,98) or USD (5,87).
During the year, the sentiment on EM, and specifically on Brazil, has changed. In particular, in Brazil, with the approach of 2022, the interest of the financial markets has shifted from the post-COVID 19 recovery to the general elections expected for autumn 2022.
Considering the volatility expected for 2022, many foreign players present in Brazil, have hedged their positions (Expected Flows and/or Net Investment Hedge) more consistently than in previous years. This has bees done, if not to demonstrate a distrust tout court on Brazil, as confirmation of the expectation of a period of excessive volatility.
Given the price pressure and the responsiveness of Banco Central do Brasil (BCB), during 2021, SELIC target rate went from 2,00% to 9,25% in 7 increases. On average, the panel of reference banks for South America expects a depreciation of the BRL, with some of them testing the maximums reached during the year just finished.

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance in 2021:

- **Consolidated revenues** amounted to 2,8 billion euros, down by 3,2% on 2020.
- **EBITDA** amounted to 1,4 billion euros, down by 3,2% on 2020.
- **Operating profit (EBIT)** was 0,5 billion euros, down by 0,5% compared to 2020.
- The **Profit for the year attributable to Owners of the Parent** amounted to 282 million euros (184 million euros for 2020).
- **Capital expenditures** in 2021 amounted to 1.253 million euros (661 million euros in 2020).
- **Net financial debt** amounts to -2.382 million euros at December 31, 2021, down of 28 million euros compared to the end of 2020 (-2.354 million euros).

NON-RECURRING EVENTS

In 2021, the Group recognized non-recurring net income connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant.

Net non-recurring income

(millions of euro)	31/12/2021
Purchase of goods and services – Oi acquisition	-6
Impact on EBITDA	**-6**
Impact on EBIT	**-6**
Other Income from Investments - Gain on Sale of Fiberco, net of costs	119
Impact on Profit (loss) before tax from continuing operations	**113**
Non recurrent fiscal impact	6
Impact on Profit (loss) from continuing operations	**119**

The non recurring income of 119 million euros is mainly due to the net gain realized following the reduction from 100% to 49% in the equity stake of I-Systems S.A. (ex Fiberco Soluçoes de Insfrastrutura S.A.), in the framework of the agreement between TIM S.A. and IHS Fiber Brasil - Cessão de Infraestruturas Ltda. ("IHS Brasil") described in the highlights of this Directors' Report. The Company had been incorporated by TIM for the segregation of its network assets and the provision of infrastructure services.

Consolidated operating performance

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

	Other operations		Brazil Business Unit					
	(millions of euros)		(millions of euros)		(millions of reais)			
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	Changes	
							Amount	%
					(a)	(b)	(a-b)	(a-b)/b
Revenues	—	—	**2.840**	**2.933**	**18.058**	**17.268**	**790**	**4,6**
EBITDA	**-7**	**-7**	**1.362**	**1.407**	**8.661**	**8.282**	**379**	**4,6**
EBITDA Margin			48,0	48,0	48,0	48,0		-0,6 pp
EBIT	**-7**	**-7**	**473**	**476**	**3.010**	**2.801**	**209**	**7,5**
EBIT Margin			16,7	16,2	16,7	16,2		0,5 pp
Headcount at year end (number)	**10**	**11**			**9.325**	**9.409**	**-84**	**-0,9**

The average exchange rates used for the translation into euro (expressed in terms of units of real per 1 euro) were 6,35936 in 2021 and 5,88806 in 2020.

	31/12/2021	31/12/2020
Lines at period end (thousands)	52.066	51.433
ARPU (reais)	26,4	24,9

REVENUES

Revenues in 2021 were entirely related to the Brazil Business Unit and amounted to 18.058 million reais (2.840 million euros), up by 4,6% on 2020 accelerating from the levels seen starting from the third quarter of 2020.

The acceleration was driven by **Revenues from services** that totaled 17.497 million reais (2.751 million euros), an increase of 832 million reais (-79 million euros) compared to 16.665 million reais (2.830 million euros) in 2020 (+5,0%) with Mobile Services Revenues at +4,7% compared to 2020. This performance is mainly explained by the continuous recovery of both Prepaid and Postpaid segments. Regarding the Fixed Service Revenues, it showed a 8,8% growth compared to last year, mostly due to TIM Live's expansion pace.

Revenues from product sales came to 561 million reais, or 88 million euros (603 million reais, or 102 million euros in 2020).

Total lines in place at December 31, 2021 amounted to 52,1 million, an increase of 0,7 million compared to December 31, 2020 (51,4 million). This variation was mainly driven by the postpaid segment (+1,0 million) partially offset by the performance in the prepaid segment (-0,3 million) , in part due to the consolidation underway in the market for second SIM cards. At December 2021, postpaid customers accounted for 43,9% of the customer base, an increase of 1,5 percentage points on December 2020 (42,4%).
TIM Live broadband operation showed positive net adds of 40 thousand new clients, +6,1% compared to December 31, 2020. The mix of this base continues to concentrate in high speed connections, with more than 50% being above 100Mbps.

Mobile Average Revenue Per User (ARPU) for 2021 was 26,4 reais (4,2 euros), up 6,0% compared to the figure posted in 2020, thanks to the general repositioning towards the postpaid segment and new commercial initiatives aimed at promoting data use and the average spend per customer.

	31/12/2021	31/12/2020
(millions of reais)		
Net revenues	**18.058**	**17.268**
Service revenues	17.497	16.665
Mobile services	16.349	15.610
Fixed services	1.148	1.055
Product revenues	561	603
(thousands)		
Lines at period end	**52.066**	**51.433**
Average Market Lines	**51.667**	**52.252**
(reais)		
Mobile ARPU (mobile services/average market lines/months)	**26,4**	**24,9**

EBITDA

EBITDA in 2021 totaled 1.355 million euros, of which 1.362 million euros attributable to the Brazil BU.
Considering Brazil BU, EBITDA for 2020 amounted to 8.661 million reais (1.362 million euros), up by 379 million reais (-45 million euros) year-on-year (+4,6%).

EBITDA in 2021 is affected by non-recurring expenses of 36 million reais mainly related to non-recurring projects.
EBITDA net of the non-recurring component (Organic EBITDA), grew by 4,7% and is calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	Amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
EBITDA	**1.362**	**1.407**	**8.661**	**8.282**	**379**	**4,6**
+/- Non recurring expenses/(income)	6	5	36	27	8	
= Organic EBITDA	**1.368**	**1.411**	**8.697**	**8.309**	**388**	**4,7**

The growth in EBITDA is attributable to the growth in revenues and the efficiency of cost control.The related EBITDA margin stood at 48,2%, up in organic terms by 0,04% compared to 2020.

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

	(millions of euros)		(millions of reais)		
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	Change
	(a)	(b)	(c)	(d)	(c-d)
Purchase of goods and services	1.037	1.070	6.592	6.298	294
Employee benefits expenses	237	236	1.506	1.392	114
Other operating expenses	283	318	1.798	1.874	-76
Change in inventories	7	-7	44	-43	87

EBIT

EBIT totaled 466 million euros (469 million euros in 2020), a decrease of 3 million euros.

Considering Brazil BU, EBIT for 2021 amounted to 3.010 million reais (473 million euros).

Organic EBIT, net of the non-recurring component, amounted to 3.046 million reais (479 million euros), with an EBIT margin of 16,9% (16,4% in 2020), and was calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	Amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
EBIT	**473**	**476**	**3.010**	**2.801**	**209**	**7,5**
+/- Non recurring expenses/(income)	6	4	36	27	8	
= Organic EBIT	**479**	**480**	**3.046**	**2.828**	**218**	**7,7**

PROFIT (LOSS) FOR THE YEAR

(million euros)	31/12/2021	31/12/2020
Profit (loss) for the year	**437**	**288**
Attributable to		
Owners of the Parent	282	184
Non-controlling interests	155	104

CAPITAL EXPENDITURE

All capital expenditure is referred to the Brazil Business Unit. The BU posted capital expenditures in 2021 of 1.253 million euros, increasing by 592 million euros on 2020 (661 million euros). Excluding the impact of changes in exchange rates (-49 million euros), capital expenditure rose by 641 million euros, targeted mainly at the expansion of mobile ultra-broadband infrastructure and the development of the fixed broadband business of TIM Live. In particular, in Brazil the auction for 5G frequencies was completed in December 2021. The capital expenditure sustained by the Brazil Business Unit for these frequencies and the related obligations amounted to 564 million euros.

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** decreased by 161 million euros as a result of 165 million euros in connection with the reduction of an equity stake in I-Systems S.A. (ex Fiberco Soluçoes de Insfrastrutura S.A.) and +4 million euros of changes in foreign exchange rates applicable to the Group's Brazilian operations. Further details are provided in the Note "Goodwill".
- **Other intangible assets** increased by 425 million euros representing the balance of the following items:
  - Capex (+682 million euros)
  - Amortization charge for the year (-269 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of +12 million euros), of which +13 related to exchange rate differences.
- **Tangible assets** decreased by 16 million euros representing the balance of the following items:
  - Capex (+570 million euros)
  - Depreciation charge for the year (-411 million euros)
  - Reduction of 192 million euros in connection with the reduction of an equity stake in I-Systems S.A. (ex Fiberco Soluçoes de Insfrastrutura S.A.)
  - Disposals, exchange differences, reclassifications and other changes for a net balance of +17 million euros almost entirely related to exchange rate differences.
- **Rights of use third-party assets:** increased by 73 million euros representing the balance of the following items:
  - Investments and increases in finance leasing contracts (+442 million euros)
  - Amortization charge for the period (-214 million euros)
  - Disposals, exchange differences and other changes (for a net balance of -155 million euros) of which +11 related to exchange rate difference.

Consolidated equity

Consolidated equity amounted to 7.282 million euros at December 31, 2021 (7.303 million euros at December 31, 2020), of which 5.937 million euros attributable to Owners of the Parent (6.070 million euros at December 31, 2020) and 1.345 million euros attributable to non-controlling interests (1.233 million euros at December 31, 2020).

Cash flows

(million euros)	31/12/2021	31/12/2020
Cash flows from (used in) operating activities	1.420	1.156
Cash flows from (used in) investing activities	-1.811	-594
Cash flows from (used in) financing activities	635	-215
Aggregate cash flows	**244**	**347**
Net foreign exchange differences on net cash and cash equivalents	6	-151
Net cash and cash equivalents at beginning of the year	**2.995**	**2.649**
Net cash and cash equivalents at end of the year	**3.239**	**2.995**

Net financial debt

(million euros)	**Other operations**		**Brazil Business Unit**	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current financial liabilities	1.745	1.782	1.885	1.256
Current financial liabilities	1.220	324	324	431
Total gross financial debt	**2.965**	**2.106**	**2.209**	**1.687**
Non-current financial assets	-1.811	-1.845	-116	-62
Current financial assets	-4.042	-3.461	-1.587	-778
Net financial debt carrying amount	**-2.888**	**-3.200**	**506**	**847**

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

Main commercial developments of the business units of the Group

Brazil

In 2021, we continued to develop and execute our Volume-to-Value strategy, transforming the profile of our mobile customer base by leveraging plan upgrades and segment migration initiatives. Consequently, the company was able to sustain a solid ARPU growth in mobile despite the macroeconomic challenges. On the fixed, our focus remained on residential broadband through FTTH, which led to the creation of a infrastructure vehicle to accelerate the rollout of our fiber coverage. Additionally, our beyond the core initiatives, both in IoT and digital services, grew in number of partnerships and contribution to our results.

Marketing and brand positioning: we consolidated the credibility of our brand, and maintained our position of the best and wider 4G coverage while reinforcing the innovation attribute through the launch of 5G pilots. We started to recover the brand association with music theme using our mobile offers and sponsorships. In December 2021, it was announced the most important sponsorship under this new strategy, the 2022 edition of the Rock in Rio festival. We also developed many initiatives to solidify our institutional positioning as a ESG leader among the Brazilian companies.

Mobile offers: to accelerate growth beyond connectivity we continue scale up partnerships leveraging our user base and key assets to expand new businesses. For the pre-paid segment, we develop differentiated offers, giving more benefits to customers with high recharge value and we consolidated TIM+Vantagens, a benefits program to retain our customers through prizes such as internet bonuses, discounts with partners, smartphones and other prizes. Reinforcing our music theme engagement we became the only Brazilian telecom company to offer prepaid customers a free and ad-free music streaming service: DeezerGo. And finally, on the post-paid segment, we maintained our effort to consolidate our position as an innovator, by developing "TIM Black" to have a broader portfolio of entertainment services using OTT partnerships and premium care services, such as TIM Concierge.

Customer Experience: we are constantly working to improve our customer experience and satisfaction through the use of technology. In this regard, the evolution of AI solutions and our digital channels are key. In the 2021 Satisfaction and Quality survey of Anatel (National Telecommunication Agency) TIM Brasil received the best evaluations by customers, driving the company to the first place in the mobile services ranking. The quality of our network was also recognized by Ookla Speedtest ranking, as TIM was appointed the best video and video conference experience while having the highest 4G availability.

Sales channels: we maintained our focus on channel productivity, segmentation, and quality of sales. During 2021, we remodeled our digital channels while reorganizing our structure to increase focus on e-commerce and in-app purchases.

Residential market: the focus on investing in FTTH (Fiber To The Home) expansion continued, with high speed offers and optimal connection stability. We executed on the strategy to create an infrastructure vehicle to accelerate the expansion and development of our fiber coverage. We segregated our last-mile network and created a neutral player in a partnership with IHS Towers. This company will provide FTTH infrastructure to TIM Brasil as an anchor customer and to other operators. In this transaction, TIM Brasil sold 51% of the company to IHS under a valuation of 2,7 billion reais, with a secondary component of 1,1 billion reais.

Corporate: we consolidated our "Leaders with Leaders" strategy in agribusiness and launched the first IoT marketplace for B2B in Brazil by promoting IoT solutions through partnerships. In addition, we launched the FCA partnership for connected cars and for industry and mining we are developing a private LTE solution for business-critical use case management. In 2021, reinforcing the partnership with Embrapa, the main agent of innovation and research in agribusiness in Brazil and the world, TIM became partner of Embrapa in the development of the newest innovation hub dedicated to agribusiness.

Main changes in the regulatory framework

Brazil

Revision of the model for the provision of Telecommunications services

In 2019, Law 13.879 was approved 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("Agencia Nacional de Telecomunicações"). 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.

Public policies applicable to telecommunications sector
Decree 9.612/2018 ("Connectivity Plan") established important rules 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 MCTI-Ministério da Ciência, Tecnologia e Inovações) 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.
The Decree was amended by Decree 10.799/2021, which included priorities for public policy coverage, including coverage of "census sectors with public schools"; coverage of villages not served with cell phone telephony and expansion of fixed broadband access in locations without access.
The decree also provides for the allocation of funds for the approval of approved projects of the Connected Cities and for the temporary provision of fixed or mobile broadband. In addition, it deals with the private federal network that may be implemented by other public or private bodies or entities and the criteria for the use and governance of the network will be defined by the Federal Government under the terms set out in an act of the Minister of State for Communications.
In 2020, the decree No. 10.480/2020 was published by the federal government, which regulates the antennas law (law 13.116/2015) with the purpose of stimulating the development of the telecommunications network infrastructure. This decree fosters development of telecom network infrastructure and is a major step towards unlocking historical problems in the sector preventing its development (free right of way on highways and railways, positive silence, small cells, dig once are some of the examples of such regulatory removal of historical problems).
In the same year, law 14.109/2020 granted the use of FUST ("Fundo de Universalização dos Serviços de Telecomunicação"), including by the private sector, to expand connectivity in rural or urban areas with a low human development Index (HDI) as well as policies for education and tech innovation of services in rural areas.
In June 15, 2021, Provisional Measure 1.018/2020 was transformed into Law No. 14.173/2021, reducing charges for satellite internet terrestrial stations and changing some of FUST application rules.
The law reduces FUST collection between 2022 and 2026, to telecommunications operators that run universalization programs approved by the management council with their own resources. The benefit will be valid for five years from January 1, 2022 and will be progressive: 10% in the first year; 25% in the second year; 40% in the third year; and 50% from the fourth year onwards.
In addition, the new legislation removes the obligation to share towers within a distance of less than 500 meters from each other. The elimination of this obligation is essential for the deployment of 5G in Brazil, including to ensure the densification scenario expected for the new technology.

Revision of Service Quality Regulation
In December 2019, Anatel approved the new Telecommunication Services Quality Regulation (RQUAL), based on a reactive regulation. In this new model, quality is measured on the basis of three main indicators – a Service Quality Index, a Perceived Quality Index and a User Complaints Index – and operators are classified into five categories (A to E). Based on this reactive regulation, Anatel will be able to take measures according to specific cases, such as consumer compensation, the adoption of an action plan or the adoption of precautionary measures to ensure quality standard improvements.
After a joint work by Anatel, operators and the Quality Assurance Support Authority (ESAQ) to define the objectives, criteria and reference values of indicators, recently, at the end of November 2021, Anatel's Board of Directors formalized the reference documents that supports this regulation: the Operational Manual and the Reference Values; and stipulated the entry into operational effectiveness in March 1, 2022, as well as the disclosure of official indexes, and the Quality Seal (inducing competition for quality) at the beginning of 2023, considering the results of the new monitored indicators in the 2nd semester of 2022.
Until then, Anatel will continue to monitor the old indicators that maintain similarity to the new ones established in the new RQUAL.

Data protection
In August 14, 2018, the General Data Protection Law (Law 13.709/2018 – "LGPD") promulgated.
In December 2018, Provisional Measure 869/2018 was converted into Law 13,709 to create the National Data Protection Authority (ANPD), also extended the entry into force of the Law to 24 months (August 2020).
In June 2020, Law 14.010/2020, postponed the entry into force of the LGPD, only for the provisions related to fines and penalties, to August 2021. The other provisions of the Law took effect in September 2020. In addition, Decree 10.474/2020 (National Data Protection Authority) came into force in August 2020, establishing the ANPD ("Autoridade Nacional de Dados Pessoais"), which is responsible for, among other things: developing guidelines for the National Data Protection Policy; supervising companies and applying sanctions; and issuing regulations and procedures on personal data protection.
In January, ANPD published the biannual regulatory agenda (2021-2022) listing the following stand out: ANPD's internal regulations, the establishment of norms for the application of art. 52 et seq. of the law, Data Subject Rights, Data Breach Reporting, among other topics.
In August 2021, the articles related to the supervisory and sanction activities of the National Authority (ANPD) entered into force.
In October 2021, were approved the regulation (CD/ANPD nº. 1 of October, 2021) for the Supervisory Process and the Sanctioning Administrative Process, within the scope of the ANPD.

Strategic Digital Transformation and the Internet of Things
In March 2018, the E-Digital Decree (9.319/2018 Decree) was published, in order to identify about 100 strategic actions to encourage competition and the country's level of online productivity, while increasing connectivity and digital inclusion levels. These actions seek to address the digital economy's main strategic questions, including connectivity infrastructure, data use and protection, the IoT and IT security.
In December 2021, the MCTI started its revision and is expected to be approved in the first half of 2022.
The Decree on the National Plan for the Internet of Things (Decree 9.854/2019) was published in June 2019, to regulate and promote this technology in Brazil. The IoT is referred to as the "infrastructure integrating the provision of value-added services with the ability to physically or virtually connect things using devices based on existing information and communication technology and their evolution, with interoperability". The Decree lists the following topics, defining them as necessary to further support the National Plan for the Internet of Things: (i) science, technology and innovation; (ii) international integration; (iii) education and professional training; (iv) connectivity and interoperability infrastructure; (v) regulation, security and privacy; (vi) economic feasibility.
In order to develop an IoT environment in the country, Law 14.108/2020 was passed. This law exempts base stations and equipment that integrate machine-to-machine (M2M) ecosystems from FISTEL (an administrative tax collected by Anatel) for 5 years and, in addition, extinguishes the previous license. The definition and regulation of M2M communication systems are established by Anatel.

5G Auction
In February 2020, the Ministry of science, technology, innovations and communications published ordinance No 418 with guidelines for the 5G auction, concerning radiofrequency bands of 700 MHz, 2,3 GHz, 3,5 GHz and 26 GHz, requiring Anatel to define technical criteria for mobile operation on 3,5 GHz in order to avoid harm from a TVRO signal offered by satellite dishes in Band C. It also established that the auction should considered coverage commitments to (i) mobile service on 4G technology or higher to cities, small villages and isolated urban and rural areas with more than 600 habitants; (ii) mobile broadband on federal highways; and (iii) fiber to the city (FTTC) on municipalities without this backhaul.
Also in February 2020, Anatel issued the public consultation No 9 in order to discuss the draft of the Public Notice for the 5G Auction. Anatel proposed bidding for the 700 MHz, 2,3 GHz, 3,5 GHz and 26 GHz bands and includes another 100 MHz in the 3,5 GHz band. It was expected that investment commitments would enable more infrastructure and a higher level of services to users, such as is outlined in the structural plan for telecommunications networks (PERT).
Regarding the possible interference caused by 5G in the reception of open satellite TV, the approved proposal addresses the solution through a model similar to that adopted for the 700 MHz band, with the creation of a group coordinated by Anatel and an independent third party to operationalize the solution.
In February 2021, Anatel's board of directors approved the public notice for the 5G Auction. After that, there was an evaluation by Brazilian federal court of auditors (TCU) that was completed on August 25, 2021. Auction returned to Anatel for analysis, which approved the Notice on September 24, 2021. The auction expected to be held in the second half of 2021, occurred in November 2021. TIM acquired 11 lots, with a total value offered of 1,05 billion reais, in 3 frequency bands 3,5 GHz, 2,3 GHz and 26 GHz. The acquired bands have a set of obligations that must be met with financial contributions or the construction of mobile and fixed network infrastructure. As a result, TIM guarantees the necessary spectrum capacity to follow its growth journey in the mobile telephony market nationwide, being prepared for its customers' demands and to explore new applications and develop innovative solutions that demand high-speed connectivity and capacity.

Main commitments associated with each band:

- 2,3 GHz: 4G coverage in some municipalities and localities (South and Southeast Regions);
- 3,5 GHz: 5G coverage in all municipalities with a population equal to or greater than 30.000 inhabitants + fiber backhaul obligations in 138 municipaties + additional contributions to a new entity (EAF) to carry out the following projects: clean-up 3,5 GHz, deployment of fibre-optic in Amazonia and building a private network for exclusive federal government use;
- 26 GHz: contributions to a new entity (EACE) to carry out connectivity schools' projects.

Competition

Brazil

In 2021, the macroeconomic scenario started recovery compared with 2020 covid-19 pandemic year. As in many countries, the lock-down protocols had a negative impact on the economy in 2020, increasing uncertainty, postponing investments, reducing income and employment in a bid to prevent the loss of human lives. On the other hand, the digital transformation had reached another level, putting telecommunications companies firmly in the spotlight, offering up new possibilities and bringing people into contact with each other, driving on advanced services like food and drug deliveries, the streaming of contents and video calls. As people get vaccinated and physical commerce reopen, we see some habits going back to pre covid-19, but some of these changed behaviors continued in some level even after people are able to go to streets again.
The economic recovery in Brazil started 2021 faster than expected, but lost some momentum during the year, with accelerated growth of inflation mainly due to food and energy prices. Important reforms as administrative and tax did not happen in the year as expected. Besides that, political scenario is full of uncertainty with presidential election getting closer and political polarization still in place. Employment rate started to grow up in 2021, which is a good signal for recovery perspectives. For 2022 the GDP growth is expected to decelerate sharply, but inflation should go back to target levels. Since interest rates were increased as a measure to hold back inflation, it is expected a movement from investors to bank investments getting away from stock market.
Despite the improvement in financial performance indicators, economic conditions are still difficult, with the budget deficit and increasing debts (for central governments, federal states and municipalities) carrying a risk that can only be managed with more structural reform, for which Congress' approval is needed. The approval of changes in spending policy, enabling the postpone of government negotiable bonds payment, in order to open budget to increase spending with social assistance "Auxilio Brasil" has increased concerns about public financial management.
The mobile telecommunications sector has seen some rationality prevail in the market and in competition, with service providers staying focused on developing their offers on the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies. The operator with most aggressive price offer is Oi, that will be out of mobile market in 2022. Finally, but no less important, the reduction from 4 to 3 main mobile players and the increase in infrastructure companies can lead to a better allocation of capital and return on investments.
In the prepaid segment, the main objective of market players has been to raise the percentage for the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages on the basis of the different needs of customers (unlimited voice calls or data packages). The strategy's aim is to improve the mix of the customer base and guarantee greater stability (together with reducing the churn rate) and growth of the ARPU. Despite the last years trend of customer base decrease, in 2021 the market's prepaid customer base is increasing 3,6% YoY in November 2021.
The postpaid mobile segment records an increase in the customer base, mainly supported by the hybrid Controle segment (in particular by migrations of prepaid customers), although "pure" postpaid lines have also recorded a certain degree of growth. This growth is based on offer segmentation strategies, through the introduction of distinctive characteristics in the use of data services (e.g. unlimited use of data on specific apps such as WhatsApp, Facebook, Twitter, Netflix, etc.) in pursuing a "More for More" policy logic that aims to guarantee a greater stability of prices and an effective repositioning of the customer base on higher value offers (voice + data + contents). The total market postpaid customer base (excluding M2M) had grown by +11,7% YoY in November 2021.
Service quality is still an element of differentiation. Telecommunication providers that have invested more in the development of 4G networks (coverage and capacity) and in the improvement of processes shaping customers' experience will have a greater ability to apply premium prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content. The main mobile operators already provide 4G coverage for 99,4% of the Brazilian population (up to December 2021), with the three main players offering average 4G availability in excess of 77% (according to the January 2022 Opensignal report).

On November 2021 the 5G auction took place. As expected, the 3 major operators won blocks in 3,5GHz, 2,3GHz an 26GHz. Some smaller regional operators have also won some regional blocks mainly in 3,5GHz. The main highlight can be considered the value paid by Brisanet in northeast 3,5GHz block (more than R$ 1 billion) and the winner of 700MHz reminiscent block, Winity, that will play as a neutral mobile network player, what it a completely new approach in Brazilian market.
The fixed broadband market recorded a growth of +11,7% on an annual basis in November 2021, mainly driven by smaller market operators (+30,6% YoY), which tend to offer cheaper services, particularly in areas where traditional operators have limited infrastructures. There is an intense M&A environment among smaller internet service providers (ISPs), with highlight for 3 ISPs that have made IPOs in order to capitalize themselves to finance their expansion strategy: Brisanet in northeast region, Unifique in south region, and Desktop in SP state (the most populate and richest state). As a result, traditional incumbent operators are suffering sharp downturns to their customer base. Penetration rates across the population are still quite low (approximately 56% of houses) when compared to several countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.
In this context, since 2017, TIM adopted a business strategy for TIM Live to expand coverage, offering ultra-broadband Internet services, mainly through FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. TIM Live has a customer base of more than 683 thousand users in November 2021 (growth of 6,5% YoY). In order to achieve faster, smarter growth of the footprint, TIM sold 51% of new FiberCo company (now I-Systems) that will have the infrastructure for Fixed Fiber Broadband offer and will act as a neutral network player.

Research and development

Brazil

The Architecture & Innovation Technology department is responsible for Research and Development (R&D) activities; its main tasks are to define technological innovation for the network and information technology, to identify evolutionary needs for new technologies and devices, converging architectonic guidelines and strategic alliances in order to use the new business models and guarantee that the network infrastructure evolution is in line with the corporate strategy.
In 2021, the Architecture & Innovation Technology department was made up of 52 people, including telecommunications, electrical and electronic, IT and other specialists with professional skills and experience, which cover all areas of network knowledge, meeting the need to innovate and support 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 PoCs (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 collaborations 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 d.evices, in 2020-2022, TIM S.A. 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, which can be grouped into the macro groups:

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

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

- a reduction in costs for LTE implementation, the extension of the LTE coverage area and the activation of the carrier aggregation strategy, improving the customer experience through a higher throughput;
- 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 presence of LTE on a national level and consolidating TIM S.A.'s leadership in LTE. 89% of TIM S.A.'s current user base of LTE devices is 700 MHz enabled (December 2021).
At the end of December 2021, 3.900 cities had 700 MHz LTE coverage, namely over 93% of the urban population; spectrum cleaning was completed in June 2019 in all cities of Brazil, enabling a bandwidth of 700 MHz. At end 2022, the total number of cities covered by TIM S.A. with a 700 MHz bandwidth should be 4.100, as envisaged by the 2021-2024 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 costsAt 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 S.A. to promote the spread of LTE in the Brazilian campaign, effectively sharing access and backhaul. At present, 4G RAN Sharing is based on three national partners, expanding the benefits and efficiency of this technical model. The energy consumption recorded for the site, dependent on the access technology and coverage conditions, showed a reduction of up to 10%.
In December 2019, TIM S.A. and Telefónica stipulated new sharing contracts aimed at increasing the network cost efficiency through the following initiatives:

- Single network: sharing of the 3G and 4G networks in cities with fewer than 30 thousand inhabitants in which both operators provide their services. The underlying idea is to have, in the cities included in the agreement, a single telecommunications infrastructure that is entirely shared by the operators, thereby allowing them to switch off redundant sites and save on energy, rent and maintenance costs. This also allows for greater efficiency in future investments thanks to the sharing of the spectrum in MOCN mode.
- Switching off of the 2G: nationwide sharing of the 2G network using GWCN technology, enabling both operators to switch off part (approximately 50%) of its network with the same technology, consequently saving on energy and maintenance costs.

Next generation network projects, future Internet applications, positive impact on the environment and society
Internet of Things - It was back in 2018 that TIM S.A. 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.
Agrobusiness - Since 2018, together with Nokia and BR Digital, TIM S.A. 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). Since 2020, TIM has strengthened its position in relation to vertical agriculture, with the creation of the ConnectarAgro ecosystem (https:// conectaragro.com.br/) which brings together TIM S.A., solution providers for the agro segment and telecommunication solution providers.
5G -The commercial launch was announced by TIM S.A.'s CEO early 2020, during an on-line event attended by approximately 20,000 colleagues; the launch in Brazil involved three cities: Bento Gonçalves (RS), Itajubá (MG) and Três Lagoas (MS). The technology will be used to supply wireless residential broadband with FWA (Fixed Wireless Access) technology, exploiting the old frequencies of the 2G, 3G and 4G networks through dynamic spectrum sharing (DSS).
Connected Car - In 2021, the telemetry and connectivity solutions for Connected Car user services were developed for FCA (Fiat Chrysler Automotive), designed to support the advanced telemetry and FCA assistance services for its vehicles, as well as Wi-Fi connectivity and other added value services for FCA car owners. These are the first full digital services for connected cars available in Brazil.

Open Lab initiatives
TIM S.A. 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 S.A. 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 S.A. 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.

Finally, in 2020, TIM S.A. 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 S.A. 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 in such a way as to ensure the best practices related to people management to support the Company's evolution process, in line with technological transformations and business challenges, which include commitment to sustainability and valuing diversity and inclusion.
Having an engaged team is essential to overcoming challenges and achieving better results. At TIM, the relationship of transparency and respect with all levels of the company strengthens our pride and sense of belonging, as well as a clarity as to the direction we are heading. These factors are differentiators in the development of our employer brand.
In 2021, we had a (97%) participation in the Climate and Engagement Survey, confirming the consistency of this process as one of the most important means of listening to people and providing the opportunity to contribute toward the evolution of our company.
The result of the 2021 Climate and Engagement Survey was 83% (down 1% from 2020), placing TIM 10% above the Global Telecom Market established by Mercer, a consulting partner responsible for the methodology and application of the survey.
The main highlights are the consistency in the Diversity & Inclusion acculturation program (which remained at 95%), the increase in leadership performance in team development through feedback (84% | +3%), error tolerance (85% | +2%), consistency in performance evaluation (83% | +3%) and practice of financial and non-financial recognition (71% | +2%), in line with the review of Skills and Performance.
In 2022, it will be necessary to focus more on structured well-being actions and to evolve in our agility and readiness for change, to maintain our stance of caring for people and improving processes for innovation.
The culture of integrity and attractive careers also stand out among the factors most widely recognized by our team, reflecting the high engagement and success of actions such as the "TIM Talks Experience 2021" and "Diversity & Inclusion" campaigns, aimed at the five pillars developed at the company: gender, race, people with disabilities, LGBTI+ people, and generations.

People
The Brazil BU ended the year 2021 with 9.337 employees across Brazil. These employees – with their histories and knowledge – represent the Company's intellectual capital and act as engines for business development.
Around 70,4% of our employees have a college degree or are currently attending college, and 9,9% have postgraduate degrees. The numbers and results show that TIM has a diversified and highly qualified staff to meet the Company's challenges. The workforce is rounded out by 216 interns and 128 young apprentices.

Development and Training
The Group employees have access to a well-structured training and development offer, in order to evolve within the company and build a successful career. TIM invested more than R$ 10 million in the training and development of its employees in 2021.
To guide the careers of its employees, TIM identifies and monitors individual performance to guide activities more assertively. The Company evaluates the dedication and outstanding performance of its professionals through different performance management tools, as well as encourages and provides opportunities for development and learning.
Here at TIM, throughout 2021, as a continuation of the plan started in 2020, we focused on supporting the evolution and transformation of the company towards the TELCO digital model, with a specific focus on the development of new capabilities, necessary to achieve the goals of the company's strategic and industrial plan.
Also, throughout 2021, TIM implemented several programs and initiatives to manage and support people development in the skills necessary to achieve business strategies:

- **New Performance Management Process**: TIM completed its 2020/2021 performance management cycle, involving more than 7,700 employees with several major innovations, such as the inclusion of new groups (Sales and Service team, Interns) with a thoroughly customized approach. The focus of the assessment is related to the competency model, as well as the ability to make things happen. The implementation of a new Performance Management platform, customized to provide the best digital experience for employees, was also a new development.
- **Digital Solutions for the Development of Leadership**: During this year, TIM launched two innovative solutions to develop our leaders: the E-Coaching and Executive Mentoring Program, more than 350 leaders experienced a digital development solution tailored to their own needs.

- **Succession Management**: Succession mapping continued this year, to ensure accelerated development and readiness for more critical senior management and executive positions.
- **Inter-company Mentoring for Women**: In July 2021, TIM, together with a growing number of major companies, created an initiative to accelerate women's career development. The initiative is part of the "Mulheres Positivas" ("Positive Women") Project, which has the broader scope of enabling women's access to the Brazilian labor market. In 2021, two waves of mentoring were developed, involving 149 women.

The main training programs and initiatives are listed below:

- **Main Institutional and Compliance Issues**: all employees take part in courses on the main institutional and compliance issues, such as ethics, human rights, sustainability and environmental policies, health and safety, information security, and anti-corruption, in line with the Group's guidelines as well as international and Brazilian laws.
- **Digital Learning Roadmap**: the new online training platform called "Talent Hub Learning" includes individual and collective itineraries for digital learning. The roadmap focuses on strategic issues such as digital mindset, new capabilities, innovation, accountability, customer experience, execution, collaborative networking, change management.
- **TIM Talks**: TIM Brasil's annual Training, Development and Communication Program. As in 2020, the event was attended not only by members of our internal workforce but also by members of the public. TIM Talks began in November with an Opening event, and lasted through late December, through a program of workshops focused on strategic issues in the sector, such as 5G, Cloud, AI, Privacy, etc. The workshop was attended by representatives of the market, academia, and institutions in general, and for the first time ever, also involved international guests.
- **Support Plan in the Context of the COVID 19 Pandemic**: Throughout 2020 and 2021, due to the novel coronavirus pandemic, TIM carried out training actions geared toward wide-ranging health and safety topics, such as mental health, self-care, ergonomics, well-being in its most varied dimensions (e.g.: nutrition, physical exercise, etc.), including online classes (e.g.: meditation) and COVID-19 prevention, and we also make the integration content available in digital format. Additionally, we transformed 100% of our training actions to the distance-education methodology, and even the "Internal Week for the Prevention of Occupational Accidents" (known by the Portuguese-language acronym "SIPAT") also migrated online, integrated into the Health & Well-being Journey, with some of the events open to the general public.
- **Onboarding**: Considering the digital transformation processes that TIM started a few years ago, a new 100% digital Onboarding program was designed to engage and prepare new employees for their daily work routines.
- **Vertical Journeys:** TIM Brasil created personalized learning journeys for the different areas, based on different needs related to the scope of activities.
- **Journey to Cloud and Agile Journey:** In line with its digital transformation and innovation plan, TIM implemented a structured upskilling plan for all employees involved in migrating infrastructure into a multi-cloud environment and for users of new data and analytics technologies. Since 2020, more than 500 people have been involved in the program. In 2021, a training program was implemented, called "Agile Journey," with the aim of disseminating the culture as well as the methods and tools of Agile Methodologies. The Journey now involves the teams that work in the service creation processes, to bring incremental gains to the business, reduce risks, and make ongoing improvements. More than 170 employees have already started the journey.
- **Sales Force Initiatives (Consumer and Corporate Evolution Program)**: a learning journey for TIM stores and Sales Force, created and developed in an innovative way based on the principle of gamification, which translated into greater involvement, new knowledge with a different "footprint," and greater value for the company. A unique, personalized and humanized experience. The online training model was maintained and improved in 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 positioning and commitment to this issue by creating policies, programs and initiatives regarding diversity and inclusion, aligned with the business strategy, organizational culture, and appreciation of the contribution of each employee at TIM.
In 2021, the Diversity & Inclusion Program continued with the annual calendar of actions, based on the UN calendar and other nationally recognized dates; strategic monitoring of the issue by the Diversity & Inclusion Committee, formed by senior executives; and the performance of affinity groups, made up of employees from all levels, areas and regions, who worked together in the design and deployment of inclusive actions for the pillars of gender, LGBTI+, race, generations, and people with disabilities.
Among the initiatives introduced, we have the Inclusive Internship Program, which gave greater flexibility to the profile and prerequisites of the selection process to expand access to minority social groups, in addition to having no restrictions on age, courses or educational institution; the program set aside 50% of the openings for black people. Regarding the gender pillar, we launched the "Positive Women" Project, aimed at increasing the

participation of women in the labor market. The project uses the "Positive Women" ("Mulheres Positivas") app as a digital platform to support the personal and professional development of women. The movement, spearheaded by TIM, started in July with 10 companies and closed out 2021 with 47 partner companies, which together offer free access to job openings and training courses, as well as intercompany mentoring for women.
Reinforcing the commitment and concrete action focused on the Social pillar of the ESG Plan, TIM established the target of having 35% of leadership positions occupied by women, and 40% of the workforce composed of black people, by 2023. We have also become a signatory to the main ecosystems of pacts and associations. Between March and December, we signed the Women's Empowerment Principles, issued by UN Women; the Business Coalition for Race and Gender Equity; the Business Network for Social Inclusion; the Business and LGBTI+ Rights Forum, the Forum on Generations and Future of Work, and the Business Coalition to End Violence against Women and Girls.
As part of the commitment to promote an environment that is increasingly inclusive, safe, and free from discrimination, in November TIM launched the "Respeito Gera Respeito" ("Respect Generates Respect") Program, with new guidelines and policy for the prevention, deterrence, and management of workplace harassment, in addition to educational actions as well as internal and external initiatives to promote environments and relationships free from discrimination and violence.
We kept the Integrated Communication and Training Plan in the program, with more than 40 actions in all, and over 3,900 employees trained. "TIM Convida" ("TIM Invites"), a 100% digital event open to society with the aim of generating dialogue and reflection on diversity and inclusion, presented seven editions throughout the year, totaling more than 386,000 views on YouTube.
With the consistency of the Diversity & Inclusion Program, TIM has become one of the leaders in promoting diversity and inclusion. In 2021 we were the first telco worldwide to receive GSMA's Diversity in Tech award, which recognizes companies that promote equality and diversity in the technology sector, and the only Brazilian company to be part of and to lead the Refinitiv Diversity & Inclusion Index, which globally measures the performance of companies in diversity and inclusion initiatives.

Environmental, Social & Governance

Brazil

ESG Journey
The Brazil BU is a pioneer in ESG (Environmental, Social & Governance) topics in the Telecommunications sector in Brazil. The Company has been part of the B3 Sustainability Index Portfolio (ISE-B3) for 14 years, being the company in the sector that has been part of the Index for the longest time. In February 2022, TIM was recognized as one of the most sustainable companies in the world by S&P Global ESG, the organization responsible for the Dow Jones Sustainability Index (DJSI). The company was included in the Sustainability Yearbook 2022 for the evolution of its performance in the DJSI submission process, with a growth of 24%.
Since 2011, TIM has voluntarily been part of the Novo Mercado (New Market), the highest level of corporate governance on the Brazilian Stock Exchange, in addition to being the first and only telecommunications operator named as a Pro-Ethic (Pró-Ética Seal) company by the Brazilian Office of the Comptroller General (CGU).
As a signatory of the UN Global Compact since 2008 and UN Women since 2021, TIM develops projects connected to the Sustainable Development Goals (SDGs) and recognizes the rights to data privacy, secure internet, access to information and freedom of speech as essential and non-negotiable.
TIM has become one of the leaders in fostering diversity and inclusion, with goals, commitments and joining various initiatives related to gender, race, LGBTI+, age, among others. The Company became the first Brazilian operator to integrate the Refinitiv Diversity & Inclusion Index in 2021, becoming the Brazilian and telecom benchmark worldwide. It also became part of the Bloomberg Gender Equality Index in 2022, which brings together 418 companies from 45 countries, 13 of which are from Brazil.
Recognized with the Top Employers certification seal, TIM is also consolidated as one of the companies with the best HR practices. The certification is the result of an independent audit by the Top Employer Institute, an international institute with 30 years of experience in 120 countries.
TIM responds to the Carbon Disclosure Project (CDP) – the world's largest database on Greenhouse Gases related to Climate Change – since 2010 and records its emissions in the Public Emissions Registry of the Brazilian GHG Protocol Program.
Since 2004, TIM has been presenting its sustainability performance and it has been publishing reports in accordance with the guidelines of the Global Reporting Initiative (GRI) for 13 years. As of 2021, the Company started calling this publication the ESG Report and continues with its commitment to transparency and accountability to its stakeholders, organizing the report in the three pillars: Environmental, Social and Governance. The Report is also 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, Privacy, among others, are publicly available for free consultation by our stakeholders.

TIM Institute
In 2013, TIM founded the TIM Institute with the mission of democratizing access to science, technology and innovation to foster human development in Brazil. Over 700,000 people from all states and the Federal District have already benefited from the Institute's education and inclusion projects, including internationally awarded prizes (Governorte Award – IDB 2015).
Due to its sound performance in ESG, TIM integrates national and international indices and ratings, such as the Corporate Sustainability Index (ISE-B3), Carbon Efficient Index (ICO2-B3), Brazil ESG Index (S&P/B3), CDP Brazil Index of Climate Resilience (ICDPR-70), Refinitiv Diversity & Inclusion, Bloomberg's Gender Equality Index (GEI), FTSE4GOOD Emerging Markets, FTSE4GOOD Latin America, MSCI ACWI ESG Leaders, MSCI Emerging Markets ESG Leaders, Teva Indices ESG Women on the Board, Women on Board seal, among others, in addition to being ISO 9001 (since 2000), ISO 14001 (since 2010) and ISO 37001 (since 2021) certified.

Events subsequent to December 31, 2021

Payment of Interest on Equity

In January 2022, TIM S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2021 and approved on December 15, 2021 according to the following schedule:

Payment Date	Reais per share
25/01/2022	0,231366129

Anatel grants prior consent for transfer of control of OI's mobile activities

TIM became aware that in an extraordinary public meeting held at the date of 31st January 2022 by its Board of Directors, ANATEL – Agência Nacional de Telecomunicações unanimously granted prior consent to the implementation of the corporate transaction referring to the full transfer of control of the three specific purpose companies ("Mobile Assets SPE" or "SPE"), which correspond to the mobile telephony activities of Oi Móvel SA – Em Recuperação Judicial ("Oi Móvel"), for the companies TIM, Telefônica Brasil S.A. and Claro S.A. ("Transaction").
Prior consent provides for certain conditions in line with a transaction of this nature, which mainly aim to guarantee access by small providers to nationwide networks, maintain commitments linked to the transferred radio frequencies, establish the minimum parameters of the communication plan linked to the Transaction and grant users certain rights in the migration steps.
The conclusion of the Transaction still depends on the fulfillment of other precedent conditions, including the approval of the Concentration Act No. 08700.000726/2021-08 by the Conselho Administrativo de Defesa Econômica - CADE.

CADE approves acquisition of OI's mobile business by TIM Brasil

The offer submitted by TIM S.A., Brazilian subsidiaries of the TIM Group, for the acquisition of the mobile assets of the Oi Group, together with Telefônica Brasil S.A. (VIVO) and Claro S.A., has been approved by the antitrust Authority CADE (Conselho Administrativo de Defesa Economica).
The decision follows the pronunciation of the reglementary Authority Anatel (Agência Nacional de Telecomunicações), which on February 1 last, had expressed itself in favor of the transfer of control of Oi's mobile assets.
The closing of the deal, which will define a new infrastructure structure for the Telco market in Brazil, still depends on the fulfillment of specific steps foreseen in the Sale and Purchase Agreement. The operation, with which TIM Brasil will acquire the most relevant share of the assets of the Oi Group, is expected to bring significant benefits to the Brazilian TLC sector, maintaining a high degree of competiton and ensuring the necessary investments for the development of the country's digital advancement.
TIM reaffirms that 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 Brazil, which will be strengthened in its investment capacity, technological innovation, as well as its competitiveness.

For others details of subsequent events, see the specific Note "Events Subsequent to December 31, 2021".

Business outlook for the year 2022

The ability to act quickly and assertively – taking advantage of market opportunities and focusing on executing the strategy – was the hallmark of 2021. This combination made it possible for us to deliver all the targets set for the year, even in a scenario of high uncertainty.
Our expectation for 2022 is to speed up the process of transforming TIM and the sector overall, with the approval of the transaction with Oi Móvel, the beginning of the implementation of "real" 5G, and the paradigm shift from fixed broadband to neutral networks. We also expect to further capitalize on our initiatives on the Digital Transformation and New Business fronts, creating major opportunities for efficiency and growth for the Group.

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.
The main uncertainties for 2022 are tied with inflation that has been fueled by the supply bottlenecks in almost all the economic sectors and the monetary policy measures that will be taken by the central banks all around the world. Following the highest level of inflation in the US in almost 40 years, The Federal Reserve (FED) is now expected to hike the interest rates 6 or 7 times during the years. At the same time the European Central Bank (ECB) is expected to end an era of expansive monetary policy that lasts, with highs and lows, since 2008. Geopolitically, the conflict between Ukraine and Russia is set to be the main event of 2022, with the involving of US, Russia and EU.
The Brazilian economy has partially recovered from the impact of Covid 19 pandemic and is now facing a double digits inflation. In order to limit the fast pace growing inflation, the Banco Central do Brasil (BCB) has raised the SELIC rate through the year from 2% to 9,25%. BCB is expected to slow down the pace of hikes and reach a stable level around 11-12%. Beside inflation and monetary policy, Brazil is facing an electoral year with the exiting president Jair Bolsonaro being challenged by the left candidate Lula. Facing such uncertainties is very difficult to predict what kind of impact there will be on the Brazilian economy and TIM Brazil results.

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 unfavorable 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 on B3 (formerly BM&F/Bovespa).
Ordinary shares of TIM S.A. were also listed on the NYSE (New York Stock Exchange); share prices are set through ADS (American Depositary Shares) representing 5 ordinary shares of TIM S.A.

Waiver of the obligation to present activities in one report only

The Board of Directors of Telecom Italia Finance 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 Report is prepared.

Alternative Performance Measures

In this Directors' Report and in the Consolidated Financial Statements of the Group for the year ended December 31, 2021, 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.

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Consolidated Statements of Financial Position
Assets

(millions of euros)	Note	31/12/2021	31/12/2020
Non-current assets			
Intangible assets		**1.996**	**1.732**
Goodwill	[4]	443	604
Intangible assets with a finite useful life	[5]	1.552	1.128
Tangible assets	[6]	**1.691**	**1.707**
Property, plant and equipment		1.691	1.707
Right of use assets	[7]	**1.253**	**1.180**
Other non-current assets		**2.658**	**2.520**
Investments	[8]	254	48
Non-current financial receivables for lease contracts	[9]	34	25
Other non-current financial assets	[9]	1.893	1.883
Miscellaneous receivables and other non-current assets	[10]	393	479
Deferred tax assets	[11]	85	86
Total Non-current assets		**7.598**	**7.140**
Current assets			
Inventories	[12]	32	39
Trade and miscellaneous receivables and other current assets	[13]	832	807
Current income tax receivables	[11]	26	39
Current financial assets	[9]	**5.628**	**4.239**
Current financial receivables arising from lease contracts		5	1
Securities other than investments, financial receivables and other current financial assets		2.377	1.237
Cash and cash equivalents		3.247	3.001
Total Current Assets		**6.518**	**5.123**
TOTAL ASSETS		**14.117**	**12.263**

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

Equity and Liabilities

(million euros)	Note	31/12/2021	31/12/2020
Equity	[14]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		4.118	4.252
Equity attributable to owners of the Parent		**5.937**	**6.070**
Non-controlling interests	[3]	**1.345**	**1.233**
TOTAL EQUITY		**7.282**	**7.303**
Non-current liabilities			
Non-current financial liabilities for financing contracts and others	[15]	2.397	1.889
Non-current financial liabilities for lease contracts	[15]	1.233	1.149
Deferred tax liabilities	[11]	—	—
Provisions	[20]	157	144
Miscellaneous payables and other non-current liabilities	[21]	118	158
Total Non-current liabilities		**3.905**	**3.340**
Current liabilities			
Current financial liabilities for financing contracts and others	[15]	1.343	590
Current financial liabilities for lease contracts	[15]	201	166
Trade and miscellaneous payables and other current liabilities	[22]	1.356	845
Current income tax payables	[11]	30	18
Total Current Liabilities		**2.930**	**1.620**
TOTAL LIABILITIES		**6.835**	**4.960**
TOTAL EQUITY AND LIABILITIES		**14.117**	**12.263**

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

Separate Consolidated Income Statements

(million euros)	Note	31/12/2021	31/12/2020
Revenues	[24]	2.840	2.933
Other operating income	[25]	13	12
Total operating revenues and other income		**2.853**	**2.945**
Purchase of goods and services	[26]	-1.039	-1.072
Employee benefits expenses	[27]	-238	-238
Other operating expenses	[28]	-287	-322
Change in inventories		-7	7
Internally generated assets	[29]	72	79
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.355**	**1.400**
Depreciation and amortization	[30]	-895	-939
Gains/(losses) on disposals of non-current assets	[31]	6	8
Operating profit (loss) (EBIT)		**466**	**469**
Share of profits (losses) of equity investments valued using equity method		-2	—
Other income (expenses) from investments	[32]	120	1
Finance income	[33]	707	545
Finance expenses	[33]	-816	-683
Profit (loss) before tax from continuing operations		**476**	**332**
Income tax expenses	[11]	-39	-44
PROFIT (LOSS) FOR THE YEAR		**437**	**288**
Attributable to			
Owners of the Parent		282	184
Non-controlling interests		155	104

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

Consolidated Statements of Comprehensive Income

(millions of euros)		Note	31/12/2021	31/12/2020
Profit (loss) for the year	**(a)**		**437**	**288**
Other components that subsequently will not be reclassified to the Separate Consolidated Income Statements	**(b=c)**		**10**	**-26**
Financial assets measured at fair value through other comprehensive income:	**(c)**		**10**	**-26**
Profit (loss) from fair value adjustments		[8]	10	-26
Other components that subsequently will be reclassified to the Separate Consolidated Income Statements	**(d=e+f+g)**		**20**	**-1.597**
Financial assets measured at fair value through other comprehensive income:	**(e)**		**-18**	**5**
Profit (loss) from fair value adjustments			-12	4
Loss (profit) transferred to the Separate Consolidated Income Statements			-6	1
Hedging derivative instruments:	**(f)**		**—**	**-1**
Profit (loss) from fair value adjustments			—	—
Loss (profit) transferred to the Separate Consolidated Income Statements			—	-1
Exchange rate differences on translating foreign operations:	**(g)**		**38**	**-1.601**
Profit (loss) on translating foreign operations			38	-1.601
Other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**		**30**	**-1.623**
Total comprehensive income (loss) for the year	**(i=a+h)**		**467**	**-1.335**
Attributable to				
Owners of the Parent			300	-948
Non-controlling interests			167	-387

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

Consolidated Statements of Changes in Equity

Changes from January 1, 2021 to December 31, 2021

(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 01, 2021	**1.819**	**3.148**	**-459**	**1**	**-2.549**	**-1**	**—**	**4.111**	**6.070**	**1.233**	**7.303**
Changes in equity during the period:											
Dividends approved [*]	—	—	—	—	—	—	—	-436	-436	-54	**-490**
Total comprehensive income (loss) for the period	—	—	-8	1	26	—	—	282	300	167	**467**
Transfer of cumulated result for disposal of TIM shares [**]	—	—	462	—	—	—	—	-462	—	—	**—**
Other changes	—	—	—	—	—	—	—	3	3	—	**3**
Balance at December 31, 2021	**1.819**	**3.148**	**-6**	**2**	**-2.523**	**—**	**—**	**3.498**	**5.937**	**1.345**	**7.282**

[*] This item includes an interim dividend that the Board of Directors of TI Finance resolved to distribute on November 23, 2021 in the amount of 384,1 million euros, partly in kind and partly cash by using the non-distributed profit of year 2009 to 2014. According to such resolution, on November 26, 327,2 million euros were paid cash. The amount in kind has been paid distributing all the no. 126.082.374 TIM S.p.A. ordinary shares in portfolio, for a countervalue of 56,9 million euros.
[**] For further details see Note "Investments".

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 01, 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**

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

Consolidated Statements of Cash Flows

(million euros)	Note	31/12/2021	31/12/2020
Cash Flows from operating activities:			
Profit (loss) from continuing operations		437	288
Adjustments for:			
Depreciation and amortisation	[30]	895	939
Impairment losses(reversals) of non-current assets (including investments)		-6	-1
Net change in deferred tax assets and liabilities	[11]	54	-97
Losses (gains) realised on disposal of non-current assets (including investments)	[31] [32]	-125	-8
Change in inventories		7	6
Change in trade receivables and net amounts due from customers on construction contracts	[13]	-17	227
Change in trade payables		5	-147
Net change in current income tax receivables/payables	[11]	24	17
Net changes in miscellaneus receivables/payables and other assets/liabilities		146	-68
Cash flows from (used In) operating activities		**1.420**	**1.156**
Cash Flows from investing activities:			
Total purchase of intangible and tangible assets and right of use on a cash basis		-796	-908
Change in financial receivables and other financial assets	[9]	-1.188	313
Collection on sale of equity investments in subsidiaries net value	[32]	172	—
Proceed from sale/repayment of intangible, tangible and other non-current assets		1	1
Cash flows from (used In) investing activities		**-1.811**	**-594**
Cash Flows from financing activities:			
Changes in current financial liabilities and other	[15]	887	-69
Proceeds from non-current financial liabilities (including current portion)	[15]	618	547
Repayments of non-current financial liabilities (including current portion)	[15]	-455	-464
Changes in derivatives	[9] [16]	16	-66
Dividends paid		-431	-162
Cash flows from (used In) financing activities		**635**	**-215**
Aggregate Cash flows		**244**	**347**
Net foreign exchange differences on net cash and cash equivalents		**6**	**-151**
Net cash and cash equivalents at the beginning of the year	**[9]**	**2.995**	**2.649**
Net cash and cash equivalents at the end of the year	**[9]**	**3.239**	**2.995**

Additional Cash Flow Information

(million euros)	31/12/2021	31/12/2020
Income taxes (paid) received	-16	-30
Interest expense paid	-372	-373
Interest income received	257	236
Dividends received	1	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 immediate and 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 2021 of the Group have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS") and were authorized for issue with a resolution of the Board of Directors on March 01, 2022. The Consolidated Financial Statements 2021 are subject to approval by the shareholders meeting.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets, which are measured at the fair value recognized in the other components of the comprehensive income, financial assets measured at fair value through the income statement, and derivative financial instruments, which have been measured at fair value.

In accordance with IAS 1 (Presentation of Financial Statements) comparative information included in the consolidated financial statements is, unless otherwise indicated, related to the previous year.

The Consolidated Financial Statements 2021 have been prepared on a going concern basis (for further details see Note "Accounting policies").

The Consolidated Financial Statements 2021 are expressed in euro (rounded to the nearest million, unless otherwise indicated).

The official version of the consolidated financial statements is the ESEF version available at the Officially Appointed Mechanism (OAM) at the bourse of Luxembourg (https://www.bourse.lu/oam).

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 costs by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the 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 other than regulatory disputes; adjustments, realignments and other non-recurring items, also relating to previous years; impairment losses on goodwill and/or other intangible and tangible 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 2021 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.

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 and 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 date of acquisition of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase (or negative goodwill) is recognized in the separate consolidated income statement.
All the assets and liabilities expressed in currencies other than euro of foreign consolidated entities that are included in the consolidation are translated using the exchange rates in effect at the reporting date (the current exchange rate method), while the related revenues and costs are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized 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 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 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 proportionally to the non-controlling interest share of the acquiree's identifiable net assets shown at the related fair value;
   - in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;

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

IFRS 3 requires, *inter alia*, the following:
- incidental costs incurred in connection with a business combination to be charged to the Separate 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/depreciated systematically over the estimated product or service life so that the amortization method reflects the way in which the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

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

TANGIBLE ASSETS

Property, plant and equipment

Property, plant and equipment are recognized at purchase or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are recognized in the Separate Consolidated Income Statement 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 the right of use of the leased asset.
On the commencement date of the lease, the right of use is recognized at cost including: the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, initial direct costs incurred for the signature of the lease and the present value of the estimated restoration and dismantling costs set out in the lease, less any incentives.
Subsequently, the right of use is amortized over the term of the lease (or the useful life of the asset, if lower), subject to impairment and adjusted for any remeasurement of the lease liability.
It is specified that starting January 1, 2021, the Group has attracted, under the scope of application of IFRS 16, if the criteria and the requirements laid down by the standard are met, the new contract types concerning cloud software resources and the spectrum of transmission frequencies on optic fiber carriers. This approach is functional to the very innovative specificity of these types of contract, concerning hardware infrastructure and optical transmission as well as technologically-advanced software services.

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.
The fair value net of disposal costs is estimated on the basis of the income approach, insofar as this allows for the reflection of the benefits deriving from a new, different business structure in the future. In particular, the fair value net of disposal costs is based on the current value of the forecast cash flow, applying a discounting 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.
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 and tangible 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).

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

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

Changes in the value of other investments classified as "financial assets at fair value through profit or loss" are recognized directly in the separate consolidated income statement.

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

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

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

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

- impairment on trade receivables assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. It is recognized as a reduction in accounts receivable based on the profile of the subscriber portfolio, the aging of overdue accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by Management, as adjusted to reflect current and prospective information on macroeconomic factors that affect the customers’ ability to settle the receivables.
- impairment on financial assets other than trade receivables is 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 (for example stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (Share-Based Payment).

In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date and is recognized in the Separate Consolidated Income Statement in "Employee benefits expenses" over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated "Other equity instruments". Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is recorded as an 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.

Provisions for risks and charges also include those established in the event that the company should stipulate contracts that thereafter became onerous, the non-discretionary costs of which necessary to fulfill the commitments made, exceeding the economic benefits expected from such contracts.

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 the recognition of revenues follows the steps set out in IFRS 15:

- identification of the contract: takes place when the parties approve the contract (with commercial substance), 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.

INCOME TAXES EXPENSE (CURRENT AND DEFERRED)

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.
Deferred tax liabilities / assets are recognized using the "Balance sheet liability method". They are calculated on all the temporary differences that arise between the taxable base of assets and liabilities and the related carrying amounts in the consolidated financial statements, except for differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Tax assets and liabilities are offset, separately for current and deferred taxes, when income taxes are levied by the same tax authority and when there is a legally enforceable offsetting right. Deferred tax assets and 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. The fair value net of disposal costs is based on the current value of forecast cash flow, calculated using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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".
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)".

Financial statement line item/area	Accounting estimates
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 8,94% for an average lease term.

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2021

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, 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of the interest rates benchmark - Phase 2
On January 13, 2021, Regulation (EU) no. 2021/25 was issued, which incorporated a set of amendments to the IFRSs relating to the reform of the interbanking rates offered (IBOR) and other interest rate benchmarks. The amendments aim to help the entities to provide investors with useful information on the effects of the reform on the entities' financial statements.
The amendments integrate those issued in 2019 and focus on the effects of the financial statements when an entity replaces the old interest rate benchmark with an alternative benchmark rate following the reform. The changes during this final phase regard:

a. changes to contractual cash flows - an entity shall not eliminate or rectify the carrying amount of the financial instruments following the amendments required by the reform, but must instead modify the effective interest rate to reflect the change in the alternative benchmark rate;
b. hedge accounting - an entity shall not stop booking the hedges only because the changes have been made to the hedging documentation as required by the reform, if the hedge continues to meet the other criteria for booking the hedge;
c. disclosure: an entity shall disclose information on the new risks deriving from the reform and on how it manages the transition to alternative benchmark rates.

The adoption of these amendments had no effect on the Consolidated Financial Statements at December 31, 2021.

Amendments to IFRS 16 Leases: COVID-19-related rent concessions beyond June 30, 2021
On August 30, 2021, Regulation (EU) 2021/1421 was issued, endorsing the extension by one year of the period of application of the practical expedient of IFRS 16 Leases, to assist lessees in accounting for COVID-19-related rent concessions.
In response to requests from interested parties, and because the COVID-19 pandemic is still at its peak, the IASB has extended, by an additional year, this method of accounting for rental concessions that reduce only lease payments due by June 30, 2022.

The original amendment was issued in May 2020 to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of the COVID-19 pandemic. The amendment takes effect for financial years starting on or after April 1, 2021.
The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2021.

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 endorsed by the EU but not yet in force	
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: Disclosure on accounting policies	1 January, 2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates	1 January, 2023
New Standards and Interpretations not yet in force and not yet endorsed by the EU	1 January, 2023
Amendments to IAS 12 Income taxes: deferred tax related to assets and liabilities arising from a single transaction	1 January, 2023
Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current	1 January, 2023

The potential impacts on the Group Consolidated Financial Statements from application of these standards and interpretations are currently being assessed.

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, 2021 compared to December 31, 2020 are listed below.

Company	Event	Business Unit	Month
I - System S.A.	Dilution	Brazil	November 2021

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

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2021, 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, 2021 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)	31/12/2021	31/12/2020
Non-current assets	5.787	5.246
Current assets	2.476	1.662
Total Assets	**8.263**	**6.908**
Non-current liabilities	2.159	1.558
Current liabilities	1.750	1.338
Total Liabilities	**3.909**	**2.897**
Equity	**4.353**	**4.011**
of which Non-controlling interests	*1.345*	*1.232*

Income statement Data TIM Brasil Group

(million euros)	31/12/2021	31/12/2020
Revenues	2.840	2.933
Profit (loss) for the year	**455**	**297**
of which Non-controlling interests	*155*	*104*

Financial Data TIM Brasil Group
In 2021, aggregate cash flows generated a positive amount of 416 million euros, including a positive exchange rate effect of 6 million euros, without which cash flow would have generated a positive amount of 410 million euros. In 2020, aggregate cash flows generated a negative amount of 93 million euros, partially due to a negative exchange rate effect of 151 million euros, without which cash flow would have generated a positive amount of 58 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 2021 and 2020:

(million euros)	31/12/2020	Increase	Decrease	Impairments	Exchange differences	31/12/2021
Brazil	**604**	—	(165)	—	4	**443**

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

In 2021 the Goodwill decreased of 165 million euros following the deconsolidation of I-Systems S.A. (formerly FiberCo Soluções de Infraestrutura S.A.), a company set up by the Brazilian subsidiary TIM S.A. for the segregation of its network assets and the provision of infrastructure services. The deconsolidation is a consequence of the completion, in November 2021, of the agreement between TIM S.A. and IHS Fiber Brasil Cessão de Infraestruturas Ltda. Due to the closing of the transaction, TIM S.A. wrote-off about 90% of the total goodwill previously recorded. As a result, IHS currently holds 51% of the share capital of I-Systems, with TIM S.A. having a minority (non-controlling) interest of 49% in I-Systems.
I-Systems S.A. is now accounted for using the equity method. In addition, the item increased by 4 million euros due to the positive exchange rate difference relating to the Goodwill of the Cash Generating Unit.

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

(million euros)	31/12/2021			31/12/2020		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**591**	**148**	**443**	**751**	**147**	**604**

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 at December 31, 2021 to 2.803 million reais (3.854 million reais at December 31, 2020).

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, 2021 was higher than the net carrying amount for the Brazil CGU (+527 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 -10%.

Note 5 - Intangible assets with a finite useful life

All intangible assets with a finite useful life in the 2021 and 2020 are referred to Brazil Business Unit.

(millions of euros)	**31/12/2020**	Investments	Amortization	Disposals	Exchange differences	Other Changes	**31/12/2021**
Industrial patents and intellectual property rights	**429**	108	-182	—	4	34	**392**
Concessions, licenses, trademarks and similar rights	**642**	191	-87	—	6	—	**753**
Other intangible assets	**2**	1	-1	—	—	—	**1**
Work in progress and advance payments	**55**	382	—	—	3	-34	**406**
Total	**1.128**	**682**	**-269**	**—**	**13**	**—**	**1.552**

(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**

Industrial patents and intellectual property rights at December 31, 2021 consisted mainly of software licenses.

Concessions, licenses, trademarks and similar rights at December 31, 2021 mainly related to the remaining cost of telephone licenses and similar rights for 716 million of euros (601 million euros at December 31, 2020).
Investments for the year valued 191 million euros (6 million euros at December 31, 2020) are essentially related to the recognition of the value of the 2,3 MHz and 26 GHz frequencies that the TIM Brasil group was awarded in November 2021 and thanks to which it will be able to offer 4G and 5G mobile services.
The assignment of the rights to use these frequencies also entailed commercial commitments toward a new entity (EACE Entidade Administradora da Conectividade de Escolas) which will be responsible for the development of some connectivity projects for Brazilian schools.

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

Type	Net carrying amount at 31/12/2021 (million euros)	Useful life in years	Amortization charge for 2021 (million euros)
GSM and 3G (UMTS)	38	15	20
4G (LTE)	494	15	62
5G	184	20	—

Work in progress and advance payments at December 31, 2021 is valued 406 million euros (55 million euros at December 31, 2020), of which 379 million euros relating to the recognition of the value of the 3,5 GHz frequencies that the TIM Brasil group was awarded in Novem ber 2021 and thanks to which it will be able to implement mobile services with 5G technology. The allocation of the rights to use these frequencies also entailed commercial commitments toward Empresa Administradora da Faixa (EAF), which will be responsible for the development of infrastructure projects.

Amortization have been reported in the income statement as components of the operating result.
No impairment losses have been recorded during the year 2021 and 2020.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2021 and 2020 can be summarized as follows:

	31/12/2021		
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	3.144	2.752	392
Concessions, licenses, trademarks and similar rights	1.775	1.022	753
Other intangible assets with a finite useful life	381	379	1
Work in progress and advance payments	406	—	406
Total intangible assets with a finite useful life	**5.706**	**4.153**	**1.552**

	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	1
Work in progress and advance payments	55	—	55
Total intangible assets with a finite useful life	**4.995**	**3.867**	**1.127**

Note 6 - Tangible assets

All tangible assets in the 31/12/2021 and 2020 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(million euros)	31/12/2020	Investments	Depreciation	Disposals	Exchange differences	Other Changes	Deconsolidation of I-System S.A.	31/12/2021
Land	**6**	—	—	—	—	—	—	**6**
Buildings (civil and industrial)	**11**	—	-1	—	—	—	—	**10**
Plant and equipment	**1.546**	453	-371	-10	13	57	-187	**1.501**
Other	**90**	38	-39	—	1	6	-1	**95**
Construction in progress and advance payments	**54**	78	—	3	1	-54	-3	**79**
Total	**1.707**	**570**	**-411**	**-7**	**15**	**9**	**-192**	**1.691**

(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**

In 2021 the item decreased following the deconsolidation of I-Systems S.A. (formerly FiberCo Soluções de Infraestrutura S.A.), a company set up by the Brazilian subsidiary TIM S.A. for the segregation of its network assets and the provision of infrastructure services. The deconsolidation is a consequence of the completion, in November 2021, of the agreement between TIM S.A. and IHS Fiber Brasil Cessão de Infraestruturas Ltda. which resulted in the dilution from 100% to 49% of TIM S.A.'s investment in I- Systems S.A.

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 2021 and 2020.

Depreciation for the years 2021 and 2020 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	10% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2021 and 2020 can be summarized as follows:

	31/12/2021		
(million euros)	**Gross carrying amount**	Accumulated depreciation	Net carrying amount
Land	**6**	—	6
Buildings (civil and industrial)	**21**	11	10
Plant and equipment	**5.034**	3.533	1.501
Other	**842**	746	95
Construction in progress and advance payments	**79**	—	**79**
Total	**5.982**	**4.291**	**1.691**

	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**

Note 7 - Right of use assets

At December 31, 2021 right of use assets amounted to 1.253 million euros and are referred to Brazil Business Unit. The breakdown and movements during the 31/12/2021 and 2020 are shown below.

(millions of euros)	**31/12/2020**	Investments	Increase in lease contracts	Depreciation and amortization	Disposals	Exchange differences	Other Changes	**31/12/2021**
Property	299	—	145	-50	-61	3	-11	**324**
Plant and equipment	880	1	296	-163	-76	8	-17	**928**
Other	2	—	—	-1	—	—	—	**1**
Total	**1.180**	**1**	**441**	**-214**	**-137**	**11**	**-28**	**1.253**

(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**

The increases in financial leasing contracts in 2021, equal to 441 million euros (508 million euros at December 31, 2020), include the higher value of the rights of use recorded as a result of new leases, increases of lease payments and renegotiation of agreements existing both land and buildings for office use and industrial relationship over time, to infrastructure sites for the mobile telephone network infrastructure and network.

The disposals are representative of the carrying amount of the assets from lease agreements that terminated early.

Amortization have been recorded in the income statement as components of EBIT.

Other changes included, inter alia, the lower value of the rights of use recorded as a result of contractual changes during the year.

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. Further details on finance lease are provided in the Note "Financial liabilities (non-current and current)".

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

No impairment losses have been recorded during the year 2021 and 2020.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2021 and 2020 can be summarized as follows:

		31/12/2021	
(million euros)	Gross carrying amount	Accumulated amortization	Net carrying amount
Property	451	127	324
Plant and equipment	1.381	452	928
Other	7	6	1
Total	**1.839**	**586**	**1.253**

		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**

Note 8 - Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method are reported below:

(million euros)	31/12/2021	31/12/2020
I-Systems S.A.	253	—
Total	**253**	**—**

Starting from 2021 the item include the carrying amount of the investment in I-Systems S.A. (formerly FiberCo Soluções de Infraestrutura S.A.) following the deconsolidation of the company.
On November 2021, once the regulatory authorization process had been completed, the agreement was finalized between TIM S.A. (Brazil Business Unit) and IHS Fiber Brasil Cessão de Infraestruturas Ltda. (“IHS Brasil”), in order to acquire an equity stake in FiberCo Soluções de Infraestrutura S.A. ("FiberCo"), a company established by TIM S.A. for the segregation of network assets and the provision of infrastructure services. The closing of the transaction resulted in the dilution from 100% to 49% of TIM S.A.'s investment in I-Systems, which is now accounted for by the TIM Group using the equity method.
Shareholder relations are governed by a shareholders' agreement.
The operation was worth 1,68 billion reais, divided up into a primary component of 0,58 billion reais, for the treasury of I-Systems, and a secondary component of 1,10 billion reais, paid to TIM S.A. The enterprise value of I-Systems was established at 2,71 billion reais and the equity value, after the contribution of the primary component, was set at 3,29 billion reais. The operation also considers possible additional earnings deriving from an earn out component.
In addition, under the scope of the Operation, TIM S.A. and I Systems have stipulated an agreement to develop the Fiber to the Site (FTTS) infrastructure to connect TIM sites in the areas in which FiberCo will be developing the new infrastructure granting access to fiber optic broadband.
The associate is in first stages of its business and the main assets are represented by plants and equipment, as they were derecognized following the deconsolidation of the company.
Further details are provided in the Note "Tangible Assets".

Other 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)	31/12/2021	31/12/2020
TIM S.p.A.	—	48
Total	**—**	**48**

The shares of TIM S.p.A. have been entirely distributed on November 23, 2021 to TIM S.p.A. by TI Finance as interim dividend in kind. The shares in portfolio has been valued at the market price of the day preceding the Board resolution, realizing a gain of 9,3 million euros. As permitted by IFRS 9, the Group measured Other Investments at fair value through other comprehensive income (FVTOCI), as a consequence the gain has not been reversed to the Separate Consolidated Income Statement.

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

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

(millions of euros)	31/12/2021	31/12/2020
Non-current financial assets	**1.927**	**1.907**
Financial receivables for lease contracts	34	25
Hedging derivatives relating to hedged items classified as non-current assets/ liabilities of a financial nature	1	1
Non-hedging derivatives	710	700
Loans and other financial receivables	1.182	1.182
Current financial assets	**5.628**	**4.239**
Securities other than investments	**2.249**	**1.092**
Fair value through other comprehensive income (FVTOCI)	1.515	768
Fair value through profit or loss (FVTPL)	733	325
Financial receivables and other current financial assets	**133**	**145**
Financial receivables arising from lease contracts	5	1
Non-hedging derivatives	44	68
Loans and other financial receivables	84	76
Cash and cash equivalents	**3.247**	**3.001**
Total non-current and current financial assets	**7.555**	**6.146**

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 754 million euros (768 million euros at December 31, 2020). 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”). At December 31, 2021 the mark-to-market component of the non-hedging derivatives of the Brazil Business Unit is equal to 72 million euros (25 million euros at December 31, 2020) in relation to the option to subscribe shares of C6 Bank with which TIM S.A. entertains commercial relations.

Loans and receivables both in current and non-current financial assets amounts to 1.266 million euros (1.258 million euros at December 31, 2020) 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 833 million euros (320 million euros at December 31, 2020) of italian treasury bonds and 682 million euros (448 million euros at December 31, 2020) 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 733 million euros (325 million euros at December 31, 2020) in monetary funds.

At December 31, 2021, Telecom Italia Finance S.A raised short-term capital (note "Financial liabilities (non-current and current)") with government and corporate bonds serving as collateral for a total value of 838,3 million euros by entering in repurchase agreements (“Repo”) expiring in the first quarter 2022.

At December 31, 2021, the Parent has contracts of security lending with TIM S.p.A. for a total of 189,5 million euros of government bonds and with bank counterparties for 171,6 million euros of other bonds.
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)	31/12/2021	31/12/2020
Liquid assets with banks, financial institutions and post offices	2.318	2.510
Other financial receivables (due within 3 months)	117	95
Securities other than investments (due within 3 months)	811	395
Total	**3.247**	**3.001**

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

(millions of euros)	31/12/2021	31/12/2020
Liquid assets with banks, financial institutions and post offices	2.318	2.510
Other financial receivables (due within 3 months)	117	95
Securities other than investments (due within 3 months)	811	395
	3.247	**3.001**
Financial payables (due within 3 months)	-8	-6
Total	**3.239**	**2.995**

The different technical forms of investing available cash at December 31, 2021 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.

Other financial receivables (due within 3 months) refers to loans granted by the Parent to TIM Group companies. All loans are considered fully recoverable by the management.

Securities other than investments (due within 3 months) included 811 million euros (395 million euros at December 31, 2020) 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)	31/12/2021	Of which Financial Instruments	31/12/2020	Of which Financial Instruments
Miscellaneous receivables	**380**	**121**	**467**	**132**
Other non-current assets	**13**	**—**	**12**	**—**
Prepaid expenses from customer contracts (contract assets)	4	—	3	—
Other prepaid expenses	9	—	8	—
Total	**393**	**121**	**479**	**132**

As at December 31, 2021 **Miscellaneous receivables** relate to the Brazil Business Unit for an amount of 380 million euros (467 million euros at December 31, 2020). They include receivables for court deposits of 113 million euros (126 million euros at December 31, 2020) and income tax receivables of 116 million euros (33 million euros at December 31, 2020). Furthermore, they included non-current receivables for indirect taxes totaling 137 million euros (296 million euros at December 31, 2020), including receivables relating to the decision made by the Supreme Federal Court (STF) on the waiver of collection of corporate income tax (IRPJ) and social contributions (CSLL) on the monetary recalculation that uses the SELIC rate in cases of undue payment.

Other non-current assets include prepaid expenses related to the Brazil BU for 13 million euros (12 million euros at December 31, 2020) 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, 2021 amounted to 142 million euros (72 million euros at December 31, 2020) and related to the Brazil Business Unit.
Specifically, they consisted of:

- non-current receivables of 116 million euros (33 million at December 31, 2020);
- current income tax receivables of 26 million euros (39 million euros at December 31, 2020).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 85 million euros at December 31, 2021 (86 million euros at December 31, 2020) was broken down as follows:

(million euros)	31/12/2021	31/12/2020
Deferred tax assets	85	86
Deferred tax liabilities	—	—
Total	**85**	**86**

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)	31/12/2021	31/12/2020
Deferred tax assets	270	260
Deferred tax liabilities	-185	-174
Total	**85**	**86**

The temporary differences that made up this line item at December 31, 2021 and 2020, as well as the movements during 2021 were as follows:

(million euros)	31/12/2020	Recognized in profit or loss	Recognized in equity	Exchange differences and other changes	31/12/2021
Deferred tax assets	**260**	**8**	**—**	**2**	**270**
Tax loss carryforwards	75	-40	—	—	35
Provision for bad debts	33	5	—	—	38
Provisions	91	32	—	1	124
Other deferred tax assets	61	11	—	1	73
	—				—
Deferred tax liabilities	**-174**	**-63**	**—**	**51**	**-185**
Derivatives	-24	2	—	—	-23
Business combinations - for step-up of net assets in excess of tax basis	-67	-37	—	52	-52
Accelerated depreciation	-42	-32	—	-1	-74
Other deferred tax liabilities	-41	5	—	—	-37
Total Net deferred tax assets (liabilities)	**86**	**-55**	**—**	**54**	**85**

At December 31, 2021, the Group had unused tax loss carryforwards of 1.026 million euros with the following expiration dates:

Year of expiration	(million euros)
2022	—
2023	—
2024	—
2025	—
2026	—
Expiration after 2026	28
Without expiration	998
Total unused tax loss carryforwards	**1.026**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 113 million euros at December 31, 2021 (229 million euros at December 31, 2020) 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 206 million euros (227 million euros at December 31, 2020) have not been recognized on 858 million euros (939 million euros at December 31, 2020) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2021, deferred tax liabilities have not been recognized on approximately 0,2 billion euros (0,5 billion euros at December 31, 2020) 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 30 million euros (49 million euros at December 31, 2020) and are mainly related to Brazil Business Unit. They were broken down as follows:

(million euros)	31/12/2021	31/12/2020
Non-Current	—	31
Current	30	18
Total	**30**	**49**

INCOME TAX INCOME (EXPENSE)

Details are as follows:

(million euros)	Year 2021	Year 2020
Current taxes for the year	-16	25
Net difference in prior year estimates	—	120
Total current taxes	**-16**	**145**
Deferred taxes	55	-102
Total income tax for the year	**39**	**44**

The decrease in total current tax reflects the difference in estimates from previous years of the Brazil Business Unit recorded in 2020, 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 reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2021 and 2020 is the following:

(million euros)	Year 2021	Year 2020
Profit (loss) before tax	**476**	**332**
Theoretical income tax	**119**	**83**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	-21	-20
Different rate compared to theoretical rate in force in Luxembourg and other changes	-31	9
Brazil: incentive on investments	-28	-28
Total effective income tax recognized in income statement	**39**	**44**

During the year 2021 tax losses of 21 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, 2021 and 2020 is 24,94%.

Note 12 - Inventories

(million euros)	31/12/2021	31/12/2020
Finished goods	32	39
Total	**32**	**39**

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)	31/12/2021	Of which Financial Instruments	31/12/2020	Of which Financial Instruments
Trade receivables	**512**	**512**	**495**	**495**
Receivables from customers	465	465	452	452
Receivables from other telecommunications operators	47	47	44	44
Miscellaneous receivables	**273**	**3**	**285**	**2**
Other current assets	**46**	**2**	**26**	**2**
Prepaid expenses from customer contracts (contract assets)	23	2	19	2
Other prepaid expenses	24	—	7	—
Total	**832**	**517**	**807**	**499**

The aging of financial instruments included in "Trade and miscellaneous receivables and other current assets" at December 31, 2021 and 2020 was as follows:

					overdue:		
(million euros)	**31/12/2021**	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	517	448	69	45	1	23	—

					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	—

The increase in the non-overdue portion (61 million euros) includes a negative exchange adjustment of approximately 3 million euros.

Overdue receivables decreased of 43 million of euros compared to December 31, 2020, including a positive exchange difference of around 1 million euros.

As at December 31, 2021 **Trade receivables** related to the Brazil Business Unit amounted to 512 million euros (495 million euros at December 31, 2020 and are stated net of the provision for expected credit losses of 118 million euros (102 million euros at December 31, 2020).

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

(million euros)	2021	2020
At January 01	**102**	**171**
Provision charges to the income statement	86	94
Utilization and decreases	(71)	(115)
Exchange differences and other changes	1	(48)
At December 31	**118**	**102**

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.

As at December 31, 2021 **Miscellaneous receivables** amounted to 273 million euros (285 million euros at December 31, 2020) and did not include provisions for bad debts (same as at December 31, 2020).

Details are as follows:

(million euros)	31/12/2021	31/12/2020
Advances to suppliers	8	16
Tax receivables	240	245
Sundry receivables	25	25
Total	**273**	**285**

As at December 31, 2021 **Tax receivables** included 240 million euros (245 million euros at December 31, 2020) referring to the Brazil Business Unit and related to local indirect taxes.

Other prepaid expenses include for the Brazil BU relative to marketing activities (approximately 14 million euros), insurance premiums (approximately 5 million euros) and maintenance contracts (approximately 5 million euros).

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

Note 14 - Equity

As at December 31, 2021 the authorized, issued and fully paid capital of 1.818.691.978,50 euros (1.818.691.978,50 euros at December 31, 2020) is represented by 185.960.325 ordinary shares (185.960.325 at December 31, 2020) with a nominal value of EUR 9,78 per share.

As at December 31, 2021 and 2020 the Parent is 100% held by TIM S.p.A.

There has not been any movement in Share Capital in the 31/12/2021.

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

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

(million euros)	31/12/2021	31/12/2020
Non-current financial liabilities	**3.630**	**3.038**
Financial payables (medium/long-term):	**1.815**	**1.273**
Bonds	1.276	1.012
Amounts due to banks	259	103
Other financial payables	279	158
Finance lease liabilities (medium/long-term)	**1.233**	**1.149**
Other financial liabilities (medium/long-term):	**582**	**616**
Non-hedging derivatives	582	616
Current financial liabilities	**1.544**	**756**
Financial payables (short-term):	**1.289**	**572**
Bonds	74	74
Amounts due to banks	1.198	490
Other financial payables	18	8
Finance lease liabilities (short-term)	**201**	**166**
Other financial liabilities (short-term):	**54**	**18**
Hedging derivatives	—	—
Non-hedging derivatives	54	18
Total financial liabilities (gross financial debt)	**5.174**	**3.793**

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)	31/12/2021	31/12/2020
Up to 2,5%	1.438	311
From 2,5% to 5%	339	286
From 5% to 7,5%	233	158
From 7,5% to 10%	1.012	1.012
Over 10%	1.433	1.313
Accruals/deferrals, MTM and derivatives	718	712
Total	**5.174**	**3.793**

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

(million euros)	31/12/2021	31/12/2020
Up to 2,5%	1.000	380
From 2,5% to 5%	272	375
From 5% to 7,5%	—	—
From 7,5% to 10%	1.252	1.012
Over 10%	1.931	1.313
Accruals/deferrals, MTM and derivatives	718	712
Total	**5.174**	**3.793**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 31, 2021:

	maturing by 31/12 of the year						
(millions of euros)	2022	2023	2024	2025	2026	After 2026	Total
Bonds	—	—	—	—	—	1.268	1.268
Loans and other financial liabilities	67	—	193	18	—	342	621
Finance lease liabilities	—	—	230	—	—	1.203	1.434
Total	**67**	**—**	**423**	**18**	**—**	**2.813**	**3.322**
Current financial liabilities	1.119	—	—	—	—	—	1.119
Total	**1.186**	**—**	**423**	**18**	**—**	**2.813**	**4.441**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 31, 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, 2021:

Currency	Amount (millions)	Nominal repayment amount at 31/12/2021 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/2021 (%)	Market value at 31/12/2021 (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[*]	133,488	1.355
Bonds issued by TIM S.A.								
BRL	1.600	253	IPCA+4,1682%	15/06/2021	15/06/2028	100	100,000	253
Total								**1.608**

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

The following table lists the changes in bonds during 2021:

New issues

(millions of original currency)	Currency	Amount	Issue date
TIM S.A. 1,600 million BRL IPCA+4,1682%	BRL	1.600	15/06/2021

Amounts due to banks (medium/long term) of 259 million euros (103 million euros at December 31, 2020) Increased by 156 million euros, mainly as net result of new loans and the transfer to the current portion.

As at December 31, 2021 **Other financial payables (medium/long-term)** amounted to 279 million euros (158 million euros at December 31, 2020) corresponding to Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totalled 1.233 million euros at December 31, 2021 (1.149 million euros at December 31, 2020). With reference to the financial lease liabilities recognized, in 2021 and 2020 the following is noted:

(million euros)	31/12/2021	31/12/2020
Principal reimbursements	86	84
Cash out interest portion	62	12
Total	**148**	**96**

Non-hedging derivatives relating to items classified as current and non-current financial liabilities totaled 636 million euros (634 million euros at December 31, 2020). 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 1.198 million euros (490 million euros at December 31, 2020) and included 251 million euros of the current portion of medium/long-term amounts due to banks. As at December 31, 2021 the item includes 838,3 million euros of short-term capital raised by entering in repurchase agreements ("Repo").

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, 2021 and December 31, 2020, determined in accordance with the provisions of the "Guidelines on disclosure requirements under the Prospectus Regulation" issued by the ESMA (European Securities & Markets Authority) on March 4, 2021 (ESMA32-382-1138).

(million euros)		31/12/2021	31/12/2020
Liquid assets with banks, financial institutions and post offices	a)	2.318	2.510
Other cash and cash equivalents	b)	811	395
Securities other than investments	c)	2.249	1.092
Liquidity	**d=a+b+c**	**5.378**	**3.998**
Current financial debt (including debt instruments, but excluding the current portion of non-current financial debt)	e)	1.120	231
Current portion of non-current financial debt	f)	379	456
Current financial debt	**g=e+f**	**1.499**	**687**
Net current financial debt	**h=g-d**	**-3.879**	**-3.311**
Non-current financial debt (excluding the current part and debt instruments)	i)	1.642	1.325
Debt instruments	j)	1.276	1.012
Trade payables and other non-current debt [**]	k)	79	44
Non-current financial debt	**l=i+j+k**	**2.998**	**2.381**
Total net financial debt as per ESMA guidelines 32-382-1138	**m=h+l**	**-881**	**-930**
Trade payables and other non-current debt		-79	-44
Loans and other non-current financial receivables		-1.182	-1.182
Non-current financial receivables arising from lease contracts		-34	-25
Loans and other current financial receivables		-201	-171
Current financial receivables arising from lease contracts		**-5**	**-1**
Subtotal	**n)**	**-1.501**	**-1.423**
Net financial debt carrying amount[*]	**o=m+n**	**-2.382**	**-2.353**

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

[**]The value at December 2021 mainly includes the payables of the Brazil Business Unit for the purchase and renewal of telecommunications licenses (72 million euros), also including the payable due to Entidade Administradora da Conectividade de Escolas (EACE) for the development of certain infrastructural projects in Brazil in connection with the assignment of the rights of use of frequencies for 5G services.

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

(million euros)		Cash movements		Non-cash movements			
	31/12/2020	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	31/12/2021
Financial payables (medium/long-term):	**1.613**	**481**	**-269**	**16**	**—**	**141**	**1.983**
Bonds	1.086	252	—	2	—	11	1.350
Amounts due to banks	368	230	-269	18	—	-2	345
Other financial payables	160	—	—	-4	—	133	289
of which short-term portion	*340*	*—*	*-269*	*11*	*—*	*86*	*168*
Finance lease liabilities (medium/long-term):	**1.315**	**136**	**-186**	**12**	**—**	**157**	**1.434**
of which short-term portion	*166*	*—*	*-186*	*2*	*—*	*220*	*201*
Other financial liabilities (medium/long-term):	**634**	**—**	**—**	**65**	**-67**	**3**	**635**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	—	—	—	—	—	—	—
Non-hedging derivatives	634	—	—	65	-67	3	634
of which short-term portion	*19*	*—*	*—*	*—*	*26*	*9*	*53*
Financial payables (short-term):	**231**	**890**	**—**	**—**	**—**	**—**	**1.122**
Amounts due to banks	225	887	—	—	—	—	1.112
Non-hedging derivatives	—	1	—	—	—	—	1
Other financial payables	6	2	—	—	—	—	8
Total financial liabilities (gross financial debt)	**3.794**	**1.508**	**-455**	**93**	**-67**	**301**	**5.174**
	—						—
Positive hedging derivatives (current and non-current)	1	—	—	—	1	—	2
Positive non-hedging derivatives (current and non-current)	768	—	-10	31	-52	15	753
Total	**3.024**	**1.508**	**-445**	**62**	**-16**	**286**	**4.419**

(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**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	—	—	—	—	—	—	—
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
Non-hedging derivatives	—	—	—	—	—	—	
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)	—	—	—	—	—	—	—
Positive non-hedging derivatives (current and non-current)	1	—	—	—	—	—	1
Total	**4.311**	**547**	**-536**	**-634**	**80**	**25**	**3.792**

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 of its debt structure by balancing fixed and variable-rates and uses derivative financial instruments to achieve that debt composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been identified, on the basis of the nominal amount, in the 65%-85% range for the fixed-rate component and in the 15%-35% range for the variable-rate component.
In managing market risk, the Group mainly uses the following financial derivatives:
- Interest Rate Swaps (IRSs), 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 (CCIRSs) 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 a non-negative outlook. 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, 2021;
- 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 2021;
- changes in the value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly, they are included in this analysis;
- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an

impact on the finance income and expenses for the year; accordingly, they are included in this analysis.

Exchange rate risk – Sensitivity analysis
At December 31, 2021 (and also at December 31, 2020), the exchange rate risk of the Group's loans denominated in currencies other than the functional currency of the Consolidated Financial Statements was hedged in full. Accordingly, a sensitivity analysis was not performed on the exchange rate risk.

Interest rate risk – Sensitivity analysis
The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:
- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in line with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2021 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 2 million euros (4 million euros at December 31, 2020).

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.
As regards the current COVID-19 pandemic, use of the Bloomberg Credit Risk Model, which, as mentioned, also takes into account the political and economic situation of the various countries in the short and medium/long-term (from 3 months to 5 years), ensures that all risk components are adequately reflected in the measurement of the credit risk.
Moreover, as regards credit risk relating to the asset components which contribute to the determination of "Net financial debt", it should be noted that the management of the Group's liquidity is guided by conservative criteria and is principally based on the following:
- money market management: the investment of temporary excess cash resources;
- bond portfolio management: the investment of medium-term liquidity, as well as the improvement of the average yield of the assets.

In order to mitigate the risk of the non-fulfillment of the obligations undertaken by the counterparty, deposits of the European companies are made with leading banking and financial institutions rated no lower than investment grade and with a non-negative outlook, and investments by the companies in South America are made with leading local counterparties. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there is a bond portfolio in which the

investments have a low risk level. All investments have been carried out in compliance with the 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, 2021, 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, 2021. 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, 2021:

	maturing by 31/12 of the year:						
(million euros)	2022	2023	2024	2025	2026	After 2026	Total
Bonds							
Principal	—	—	—	—	—	1.268	1.268
Interest Portion	101	99	95	96	83	552	1.025
Loans and other financial liabilities							
Principal	82	17	191	21	16	293	621
Interest Portion	38	36	22	16	15	37	166
Finance lease liabilities							—
Principal	200	200	209	109	99	616	1.433
Interest Portion	33	32	30	29	27	130	280
Non-current financial liabilities							
Principal	**282**	**217**	**400**	**130**	**116**	**2.177**	**3.322**
Interest Portion	**172**	**166**	**147**	**141**	**125**	**720**	**1.471**
Current financial liabilities							
Principal	**1.119**	—	—	—	—	—	**1.119**
Interest Portion	**4**	—	—	—	—	—	**4**
Total Financial liabilities							
Principal	**1.401**	**217**	**400**	**130**	**116**	**2.177**	**4.441**
Interest Portion	**176**	**166**	**147**	**141**	**125**	**720**	**1.476**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2021:

	maturing by 31/12 of the year:						
(million euros)	2022	2023	2024	2025	2026	After 2026	Total
Disbursements	1	1	1	1	1	3	8
Receipts	-1	-1	-1	-1	-1	-4	-10
Hedging derivatives – net disbursements (receipts)	—	—	—	—	—	**-1**	**-2**
Disbursements	263	182	256	145	221	790	1.857
Receipts	-235	-159	-241	-132	-214	-808	-1.790
Non-Hedging derivatives – net disbursements (receipts)	**29**	**23**	**14**	**13**	**7**	**-19**	**67**
Total net disbursements (receipts)	**28**	**23**	**14**	**12**	**7**	**-20**	**64**

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 IRSs does not represent the amount exchanged between the parties and therefore is not a measurement of credit risk exposure which, instead, is limited to the amount of the difference between the interest rates paid/received.
The market value of 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 denomination currencies.
Options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: the lifetime horizon of the option, the risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying financial instrument, and the exercise price.

Note 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, 2021 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.
IRSs 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 CCIRSs 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 3.432 million euros (3.362 at December 31, 2020).
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, 2021 and December 31, 2020, by type:

Type(million euros)	Hedged risk	Notional amount at 31/12/2021	Notional amount at 31/12/2020	Spot Mark-to-Market (Clean Price) at 31/12/2021	Spot Mark-to-Market (Clean Price) at 31/12/2020
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 [***]		**4.407**	**4.548**	**105**	**118**
Total Telecom Italia Finance Group Derivatives		**4.546**	**4.686**	**106**	**119**

[*] 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 MTM of Non-Hedge Accounting Derivatives is mainly related to the value of the right held by TIM Brasil to subscribe shares of the Brazilian C6 Bank of 72 million euros on the basis of a commercial agreement signed by the two companies in March 2020.

The hedging of cash flows by cash flow hedges was considered highly effective and at December 31, 2021 led to recognition in equity of unrealized gains of 1,5 million euros (1 million euros as at December 31, 2020).

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-22	Oct-29	0,75 %	Semiannually

The method selected to test the effectiveness retrospectively and, whenever the main terms do not fully coincide, prospectively, for cash flow hedge derivatives and fair value hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (meaning the derivative and the item hedged) and the risk of the hedged item taken individually. In essence, the portfolio risk must be significantly lower than the risk of the h edged item.
No material ineffective portion has been recognized in the income statement from designated cash flow hedge derivatives during 2021.

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, 2021.

The assets and liabilities at December 31, 2021 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, 2021:

					Levels of hierarchy	
(millions of euros)		IFRS 9 Categories	Note	Value at 31/12/2021	Level1	Level2
ASSETS						
Non-current Assets	**a)**			**711**	**—**	**711**
Other non-current financial assets:						
Hedging derivatives		HD[*]	[9]	1	—	1
Non-hedging derivatives		FVTPL	[9]	710	—	710
Current Assets	**b)**			**2.293**	**2.249**	**44**
Securities other than investments, measured at:						
Fair value through other comprehensive income		FVTOCI	[9]	1.515	1.515	—
Fair value through profit or loss		FVTPL	[9]	733	733	—
Other current financial assets:						
Non-hedging derivatives		FVTPL	[9]	44	—	44
Total (a+b)				**3.004**	**2.249**	**756**
LIABILITIES						
Non-current liabilities	**c)**			**582**	**—**	**582**
Non-hedging derivatives		FVTPL	[15]	582	—	582
Current liabilities	**d)**			**54**	**—**	**54**
Hedging derivatives		HD[*]	[15]	—	—	—
Non-hedging derivatives		FVTPL	[15]	54	—	54
Total (c+d)				**636**	**—**	**636**

[*] 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, 2020:

					Levels of hierarchy	
(millions of euros)		IFRS 9 Categories	Note	Value at 31/12/2020	Level1	Level2
ASSETS						
Non-current Assets	**a)**			**749**	**48**	**701**
Other investments		FVTOCI	[8]	48	48	—
Other non-current financial assets:						
Hedging derivatives		HD[*]	[9]	1	—	1
Non-hedging derivatives		FVTPL	[9]	700	—	700
Current Assets	**b)**			**1.161**	**1.092**	**68**
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	—
Other current financial assets:						
Non-hedging derivatives		FVTPL	[9]	68	—	68
Total (a+b)				**1.909**	**1.140**	**769**
LIABILITIES						
Non-current liabilities	**c)**			**616**	**—**	**616**
Non-hedging derivatives		FVTPL	[14]	616	—	616
Current liabilities	**d)**			**18**	**—**	**18**
Non-hedging derivatives		FVTPL	[14]	18	—	18
Total (c+d)				**634**	**—**	**634**

[*] 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, 2021:

(millions of euros)		IFRS 9 Categories	Note	Value at 31/12/2021	Fair Value at 31/12/2021	Levels of hierarchy Level1	Level3	Amounts recognized in the financial statements pursuant to IFRS 16
ASSETS								
Non-current Assets	**a)**			**1.336**	**1.336**	**—**	**1.303**	**34**
Other financial receivables		AC	[9]	1.182	1.182	—	1.182	—
Miscellaneous receivables		AC	[10]	121	121	—	121	—
Financial receivables for lease contracts		n/a	[9]	34	34		—	34
Current Assets	**b)**			**3.853**	**3.853**	**—**	**3.848**	**5**
Other short-term financial receivables		AC	[9]	84	84	—	84	—
Cash and cash equivalents		AC	[9]	3.247	3.247	—	3.247	—
Trade and miscellaneous receivables		AC	[13]	517	517	—	517	—
Financial receivables for lease contracts		n/a	[9]	5	5	—	—	5
Total (a+b)				**5.189**	**5.189**	**—**	**5.150**	**38**
LIABILITIES								
Non-current liabilities	**c)**			**3.048**	**2.841**	**1.355**	**253**	**1.233**
Financial payables		AC	[15]	1.815	1.608	1.355	253	—
Finance lease liabilities		n/a	[15]	1.233	1.233	—	—	1.233
Current liabilities	**d)**			**2.528**	**2.528**	**—**	**2.327**	**201**
Financial payables		AC	[15]	1.289	1.289	—	1.289	—
Trade and miscellaneous payables and other current liabilities		AC	[22]	1.038	1.038	—	1.038	—
Finance lease liabilities		n/a	[15]	201	201	—	—	201
Total (c+d)				**5.576**	**5.369**	**1.355**	**2.580**	**1.434**

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	[11]	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	[14]	1.273	1.763	1.503	261	—
Finance lease liabilities	n/a	[14]	1.149	1.149	—	—	1.149
(c)			**2.422**	**2.912**	**1.503**	**261**	**1.149**
Current liabilities							
Financial payables	AC	[14]	572	572	—	572	—
Trade and miscellaneous payables and other current liabilities	AC	[20]	581	581	—	581	—
Finance lease liabilities	n/a	[14]	166	166	—	—	166
(d)			**1.319**	**1.319**	**—**	**1.153**	**166**
Total (c+d)			**3.741**	**4.231**	**1.503**	**1.414**	**1.315**

Gains and losses by IFRS 9 category - Year 2021

(million euros)	IFRS 9 Categories	Net gains/(losses) 31/12/2021	of which interest
Amortized Cost	AC	-77	27
Fair Value Through Profit or Loss	FVTPL	25	—
Fair Value Through Other Comprehensive Income	FVTOCI	5	—
Total		**-47**	**27**

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**

Note 20 - Provisions

(million euros)	31/12/2020	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2021
Provision for taxation and tax risks	**63**	5	—	-3	3	**68**
Provision for restoration costs	**5**	—	—	—	—	**5**
Provision for legal disputes	**76**	33	—	-26	1	**84**
Other provisions	**1**	—	—	—	—	**1**
Total	**146**	**38**	**—**	**-29**	**4**	**158**
of which:						
non-current portion	**144**	38	—	-29	4	**157**
current portion	**1**	—	—	—	—	**1**

Provision for taxation and tax risks increased by 5 million euros compared to December 31, 2020.

Provision for legal disputes includes the provision for litigation with employees and other counterparties and refers to the Brazil Business Unit. The uses consisted of 26 million euros and resulted from settlement agreements reached.

Note 21 - Miscellaneous payables and other non-current liabilities

(million euros)	31/12/2021	31/12/2020
Other deferred income	109	118
Income tax payables	—	31
Other	8	9
Total	**118**	**158**

Other deferred income includes the non-current portion of approximately 108 million euros as at December 31, 2021 (119 million euros as at December 31, 2020) 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)	31/12/2021	Of which Financial Instruments	31/12/2020	Of which Financial Instruments
Trade payables	**1.001**	**1.001**	**546**	**546**
Payables to suppliers	978	978	523	523
Payables to other telecommunication operators	23	23	22	22
Tax payables	**78**	**—**	**103**	**—**
Miscellaneous payables	**244**	**34**	**154**	**33**
Payables for employee compensation	34		31	
Payables to social security agencies	11		10	
Payables for TLC operating fee	164		79	
Dividends approved, but not yet paid to shareholders	34	34	33	33
Provisions for risks and charges for the current portion expected to be settled within 1 year	1		1	
Other current liabilities	**33**	**3**	**43**	**3**
Deferred revenues from customer contracts (Contract liabilities)	5	3	4	3
Customer-related items	16	—	27	—
Other deferred income	11		11	
Advances received	1		1	
Other current liabilities	—	—	—	—
Total	**1.356**	**1.038**	**845**	**581**

Trade payables amounting to 1.001 million euros as at December 31, 2021 (546 million euros at December 31, 2020) are mainly referred to the Brazil Business Unit. The increase is mainly referred to the acquisition of 5G licenses on November 2021.

At December 31, 2021, trade payables due beyond 12 months totaled 73 million euros (44 at December 31, 2020) and are mainly represented by payables of the Brazil Business Unit for the purchase and renewal of telecommunications licenses, also including the payable due to Entidade Administradora da Conectividade de Escolas (EACE) for the development of certain infrastructural projects in Brazil in connection with the assignment of the rights of use of frequencies for 5G services.

For more details on the acquisition of 5G licenses in Brazil, see the Note on "Intangible assets"

Tax payables amounting to 78 million euros as at December 31, 2021 are entirely referred to the Brazil Business Unit (103 million euros at December 31, 2020).

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, 2021, 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 December 31, 2021, 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 16,3 billion reais (around 2,6 billion euros). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes
In relation to the federal level of taxation, the following disputes should be noted:

- disallowance of the tax effects of the merger between the companies of the TIM Brasil Group;
- denial of the SUDENE regional tax benefit, due to alleged irregularities in the management and reporting of the benefit itself;
- 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 3,1 billion reais (about 0,5 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;
- challenges of ICMS credits in relation to acting as a withholding agent, applicable when equipment is
- bought and distributed in different States;
- challenges of ICMS credits deriving from the “special credit” recognized by the company to its prepaid customers, against subsequent top-ups.

Overall, the risk for these cases, considered to be possible, amounts to 8,8 billion reais (about 1,4 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 1,2 billion reais (about 0,2 billion euros).

FUST and FUNTTEL
The main challenges about contributions to the regulatory body (Anatel), and in particular in terms of FUST and FUNTTEL, concern whether or not interconnection revenues should be subject to these contributions.

Overall, the risk for these cases, considered to be possible, amounts to 3,2 billion reais (around 0,5 billion euros).

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.

In September 2016 the ICC Court notified the parties of its judgment, based on which the Court of Arbitration rejected all the claims made by the Opportunity group and decided that the legal costs, administrative costs and costs for expert witnesses should be split between the parties (the "2016 Arbitration Award").

In April 2017 the Opportunity group filed an appeal against the 2016 Arbitration Award before the Paris Court of Appeal.

In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC's International Court of Arbitration notice of a Request for Revision of the 2016 Arbitration Award, filed by the Opportunity group, asking for a new award. A Board of Arbitration was subsequently established.

In October 2018, TIM and Telecom Italia Finance requested proceedings with the Paris Court of Appeal to be suspended, in the light of proceedings pending with the Court of Arbitration of the International Chamber of Commerce to review the same 2016 Arbitration Award. In November 2018, the Paris Court of Appeal suspended the proceedings until the decision is taken by the Court of Arbitration in the review proceedings.

As regards the proceedings to review the 2016 Arbitration Award, in October 2019 the ICC held the discussion hearing in Paris. In August 2020, the Arbitration Court issued the award rejecting the Request for Revision presented by the Opportunity Group (the "2020 Arbitration Award"). In December 2020, the Opportunity group filed an appeal against the 2020 Arbitration Award before the Paris Court of Appeal. In May 2021 the Opportunity group asked the Paris Court of Appeal to summarize the proceedings brought against the 2016 Arbitration Award.

COMMITMENTS AND GUARANTEES

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

(million euros)	31/12/2021	31/12/2020
Guarantee on bonds and other debts issued by the Group	1.168	1.173
Guarantee on derivatives financial instruments	180	251
Total	**1.348**	**1.424**

There are also surety bonds on the telecommunication services in Brazil for 653 million euros.

The Group has provided to Telecom Italia Capital (related party) a guarantee covering the full amount of a credit line amounting to 100 million euros, which represents the maximum credit risk exposure relating to this financial guarantee contract.

Note 24 - Revenues

(million euros)	31/12/2021	31/12/2020
Equipment sales	88	102
Services	2.751	2.830
Total	**2.840**	**2.933**

Revenues only relates to the Brazil Business Unit.

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 129 million euros in 2021 (130 million euros in 2020, -0,1% change), included in the costs of services.

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

Note 25 - Other operating income

(million euros)	Year 2021	Year 2020
Late payment fees charged for telephone services	9	6
Other income	4	6
Total	**13**	**12**

Other operating income only relates to the Brazil Business Unit.

Note 26 - Purchase of goods and services

(million euros)	Year 2021	Year 2020
Purchase of raw materials and merchandise	**112**	**140**
Costs of services	**766**	**777**
Revenues due to other TLC operators	129	130
Commissions, sales commissions and other selling expenses	263	266
Advertising and promotion expenses	72	64
Professional and consulting services	90	87
Utilities	54	64
Maintenance	52	45
Outsourcing costs for other services	53	62
Mailing and delivery expenses for telephone bills, directories and other materials to customers	9	15
Other service expenses	43	45
Lease and rental costs	**161**	**155**
Rent of properties	47	46
TLC circuit lease rents and rents for use of satellite systems	99	90
Other lease and rental costs	15	18
Total	**1.039**	**1.072**

Note 27 - Employee benefits expenses

(million euros)	Year 2021	Year 2020
Wages and salaries	158	163
Social security expenses	47	41
Other employee benefits	32	33
Total	**238**	**238**

The employee benefits expenses are mainly related to the Brazil Business Unit for 236 million euros (236 million euros in 2020).

Note 28 - Other operating expenses

(million euros)	Year 2021	Year 2020
Write-downs and expenses in connection with credit management	86	94
Provision charges	33	44
TLC operating fees and charges	146	155
Indirect duties and taxes	10	10
Penalties, settlement compensation and administrative fines	—	—
Association dues and fees, donations, scholarships and traineeships	1	1
Sundry expenses	11	17
Total	**287**	**322**
of which, included in the supplementary disclosure on financial instruments	*86*	*94*

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

Note 29 - Internally generated assets

(million euros)	Year 2021	Year 2020
Intangible assets with a finite useful life	21	23
Tangible assets owned	51	56
Total	**72**	**79**

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 2021	Year 2020
Amortization of intangible assets with a finite useful life	**269**	**308**
Industrial patents and intellectual property rights	182	214
Concessions, licenses, trademarks and similar rights	87	93
Other intangible assets	1	1
Depreciation of tangible assets owned	**411**	**430**
Buildings (civil and industrial)	1	1
Plant and equipment	371	388
Other	39	41
Depreciation of right of use assets	**214**	**202**
Property	50	53
Plant and equipment	163	147
Other	1	2
Total	**895**	**939**

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 2021	Year 2020
Gains on disposals of non-current assets	**9**	**9**
Gains on the retirement/disposal of intangible and tangible assets	9	9
Losses on disposals of non-current assets	**(2)**	**(1)**
Losses on the retirement/disposal of intangible and tangible assets	(2)	(1)
Total	**6**	**8**

In 2021, the item posted a net gain of 6 million euros, connected with the ordinary asset renewal process.

Note 32 - Other income (expenses) from investments

(million euros)	Year 2021	Year 2020
Dividends from TIM S.p.A.	1	1
Net gains on investments	119	—
Total	**120**	**1**

In 2021, the item mainly included the net capital gain (119 million euros) recognized following the dilution from 100% to 49% of the equity investment of the Brazilian subsidiary TIM S.A. in I-Systems S.A. (formerly FiberCo Soluções de Infraestrutura S.A.), a company established by TIM S.A. for the segregation of its network assets and the provision of infrastructure services, following the completion of the agreement between TIM S.A. and IHS Fiber Brasil - Cessão de Infraestruturas Ltda.

Note 33 - Finance income and expenses

FINANCE INCOME

(million euros)	31/12/2021	31/12/2020
Interest income and other finance income	**462**	**341**
Income from financial receivables, recorded in non-current assets	84	85
Interest income on bank and postal accounts	54	16
Interest income on trade accounts receivable	4	5
Income from securities other than investments measured at FVTOCI	7	5
Income other than the above:		
Interest income on financials leasing receivables	4	3
Exchange gains	107	68
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Income from non-hedging derivatives	160	134
Miscellaneous finance income	40	25
Positive fair value adjustments to non-hedging derivatives	**237**	**201**
Positive adjustments and reversal for impairment on financial assets	**9**	**3**
Total	**707**	**545**

FINANCE EXPENSES

(million euros)	31/12/2021	31/12/2020
Interest expenses and other finance expenses	**547**	**559**
Interest expenses and other costs relating to bonds	85	82
Interest expenses to banks	16	17
Interest expenses to others	11	11
Interest expenses on lease liabilities	135	135
Expenses other than the above:		
Financial commissions and fees	11	18
Exchange losses	65	108
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Charges from non-hedging derivatives	150	132
Miscellaneous finance expenses	74	55
Negative fair value adjustments to non-hedging derivatives	**268**	**123**
Negative adjustments for impairment on financial assets	**1**	**2**
Total	**816**	**683**

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

(million euros)	31/12/2021	31/12/2020
Exchange gains	107	68
Exchange losses	-65	-108
Net exchange gains and losses	**43**	**-40**
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	160	134
Charges from non-hedging derivatives	-150	-132
Net result from non-hedging derivatives	10	2
Net result from derivatives	**10**	**2**
Positive fair value to non-hedging derivatives	237	201
Negative fair value adjustments to non-hedging derivatives	-268	-123
Net fair value adjustments to non-hedging derivatives	**-31**	**78**
Positive adjustments and reversal for impairment on financial assets	9	3
Negative adjustments for impairment on financial assets	-1	-2
Net impairment on financial assets	**8**	**1**

Note 34 - 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	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Third-party revenues	2.840	2.933	—	—	2.840	2.933
Revenues by operating segment	**2.840**	**2.933**	**—**	**—**	**2.840**	**2.933**
Other income	13	12	—	—	13	12
Total operating revenues and other income	**2.853**	**2.944**	**—**	**—**	**2.853**	**2.945**
Purchase of goods and services	-1.037	-1.070	-2	-2	-1.039	-1.072
Employee benefits expenses	-237	-236	-1	-1	-238	-238
Other operating expenses	-283	-318	-4	-4	-287	-322
of which: write-downs and expenses in connection with credit management and provision charges	*-113*	*-132*	—	—	*-113*	*-132*
Change in inventories	-7	7	—	—	-7	7
Internally generated assets	72	79	—	—	72	79
EBITDA	**1.362**	**1.407**	**-7**	**-7**	**1.355**	**1.399**
Depreciation and amortization	-895	-939	—	—	-895	-939
Gains/(losses) on disposals of non-current assets	6	8	—	—	6	8
EBIT	**473**	**476**	**-7**	**-7**	**466**	**468**
Share of profits (losses) of equity investments valued using equity method					-2	—
Other income (expenses) from investments					120	1
Finance income					707	545
Finance expenses					-816	-683
Profit (loss) before tax					**476**	**332**
Income tax income (expense)					-39	-44
Profit (loss) for the year					**437**	**288**
Attributable to:						
Owners of the Parent					282	184
Non-controlling interests					155	104

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	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current operating assets	5.332	5.098	1	1	5.333	5.098
Current operating assets	773	772	45	47	818	819
Total operating assets	**6.105**	**5.870**	**46**	**48**	**6.151**	**5.918**
Discontinued operations /Non-current assets held for sale					—	—
Unallocated assets					7.966	6.345
Total Assets					**14.117**	**12.263**
Total operating liabilities	**1.626**	**1.144**	**5**	**4**	**1.631**	**1.148**
Unallocated liabilities					*5.204*	*3.812*
Equity					7.282	7.303
Total Equity and Liabilities					**14.117**	**12.263**

Note 35 - 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 2021 and 2020 are as follows:

Separate Consolidated Income Statement line items at 31/12/2021

(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	**2.840**	—	2		—	2	0,1
Other income	**13**	—	—		—	—	2,0
Purchase of goods and services	**1.039**	—	61		—	61	5,8
Employee benefits expenses	**238**	—	—	4	8	11	4,6
Other operating expenses	**287**	—	—	—	—	—	—
Other income (expenses) from investments	**120**	—	120	—	—	120	100,0
Finance income	**707**	—	186		—	186	26,3
Finance expenses	**816**	—	225	—	—	225	27,5

[*] TIM Group companies; Vivendi group and companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

Separate Consolidated Income Statement line items 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

[*] TIM Group companies; Vivendi group and companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

The effects on the individual line items of the consolidated statements of financial position at December 31, 2021 and December 31, 2020 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2021

(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	**-2.382**	**—**	**-1.184**	**—**	**-1.184**	**49,7**
Non-current financial assets	**-1.927**	—	**-1.403**	—	**-1.403**	**72,8**
Current financial assets	**-5.628**	—	**-209**	—	**-209**	**3,7**
Securities other than investments (current assets)	-2.249	—	—	—	—	**—**
Financial receivables and other current financial assets	-133	—	-91	—	-91	**68,7**
Cash and cash equivalents	-3.247	—	-117	—	-117	**3,6**
Non-current financial liabilities	**3.630**	**—**	**408**	**—**	**408**	**11,2**
Current financial liabilities	**1.544**	**—**	**20**	**—**	**20**	**1,3**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**832**	—	15	—	16	**1,9**
Miscellaneous payables and other non-current liabilities	**118**	—	—	—	—	**—**
Trade and miscellaneous payables and other current liabilities	**1.356**	—	23	—	24	**1,8**

[*] TIM Group companies; Vivendi group and companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

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

(million euros)	Total	Associates and companies controlled by associates	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	**158**	—	—	—	—	**—**
Trade and miscellaneous payables and other current liabilities	**845**	—	19	—	19	**2,3**

[*] TIM Group companies; Vivendi group and companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(million euros)	31/12/2021	31/12/2020	Type of contract
Other pension funds	4	4	
Total employee benefits expenses	**4**	**4**	Contributions to pension funds

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in 2021 amounted to 8 million euros (6 million euros in 2020). The compensation of key Management personnel for services rendered is shown below:

(million euros)	31/12/2021	31/12/2020
Short-term benefits	5	4
Long-term benefits	—	1
Share-based payments remuneration	2	1
Total remuneration to key managers	**8**	**6**

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

Note 36 - Equity compensation plans

The equity compensation plans in force at December 31, 2021 are used for attraction and retention purposes, and as a long-term incentive for the managers and employees of the Group.
However, it should be noted that these plans do not have any significant effect on the economic result or on the financial position or on cash flows at December 31, 2021.

A summary is provided below of the plans in place at December 31, 2021.

DESCRIPTION OF STOCK OPTION PLANS

TIM 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 strike price is adjusted upwards or downwards during each year for which the plan is in force, according to the ranking of the Total Shareholder Return of the TIM S.A. shares with respect to a panel of peers (made up of companies in the Telecommunications, Information Technology and Media industry).
The vesting period is 3 years (a third per year), the options can be exercised 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, 2021, 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 expiry of the exercise period), 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. As of December 31, 2021, 100% of the options were considered as vested, and there are no options that can be exercised. Of the total options granted, 1.646.080 were canceled by participants leaving the company. All of the remaining balance (amounting to 1.709.149 options) has been 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, 2021, 100% of the options were considered as vested. Of the total options granted, 1.727.424 were canceled by participants leaving the company. Of the remaining balance (2.194.780 options), 2.082.228 options had been exercised and 112.552 could still be exercised.

DESCRIPTION OF OTHER COMPENSATION PLANS

TIM S.A. - Long Term Incentive Plan 2018-2020
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 aimed to reward participants with shares issued by the company, subject to specific temporal and performance conditions. 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 vesting period is 3 years (with 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 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, 2021, 100% of the rights assigned were considered as vested:

- 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).
- Third vesting period: in compliance with the results approved on May 5, 2021, 252.143 shares were transferred to beneficiaries, of which 187.039 relating to the original volume accrued, 42.854 discounted according to the degree to which objectives had been achieved and 22.250 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 12.500 shares (9.101 relative to the original volume accrued, 2.305 acknowledged according to the degree to which the objectives had been achieved and 1.094 due to dividends distributed during the period).

At December 31, 2021, of the total assigned of 849.932 shares, 473.073 had been canceled due to the beneficiaries having left the participating company, 455.858 shares had been transferred to beneficiaries (361.928 relative to the original volume accrued, 63,378 from performance achieved and 30,552 for payment of dividends in shares) and 19.269 shares had been valued and paid in cash (14,931 relative to the original volume accrued, 2.964 from performance achieved and 1.374 for payment of dividends in shares), thereby completing the 2018 concession.

• Year 2019

On July 30, 2019, plan beneficiaries were granted the right to receive 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, with a total vesting period of 3 years.

Two vesting periods ended on December 31:

- 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 granted according to the degree to which objectives had been achieved and 16.536 shares as a result of the dividends distributed during the period.
- Second vesting period: in compliance with the results approved on July 26, 2021, 309.222 shares were transferred to beneficiaries, of which 207.859 relating to the original volume accrued, 78.111 discounted according to the degree to which objectives had been achieved and 23.252 shares for dividends distributed during the period.

At December 31, 2021, of the total assigned of 930.662 shares, 86.424 had been canceled due to the beneficiaries having left the company and 618.779 shares had been transferred to beneficiaries (417.208 related to the original volume vested, 161.783 from performance achieved and 39.788 for payment of dividends in shares), thereby leaving a balance of 427.030 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.
At December 31, 2021, of the total assigned of 796.054 shares, 70.378 shares were canceled due to beneficiaries having left the company and 267.145 shares were transferred to beneficiaries against the result of the first vesting period of performance shares, in accordance with the results approved on May 5, 2021 (206.578 relating to the original volume vested, 51,634 recognized based on the level of achievement of objectives and 8.933 as a result of dividends distributed during the period), thereby leaving a balance of 519.098 shares that could be accrued at period end.

<u>TIM S.A. - Long Term Incentive Plan 2021-2023</u>

On March 30, 2021, the General Meeting of Shareholders of 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, according to specific time (restricted shares) and performance (performance shares) conditions. The vesting period is 3 years and the company does not have the legal obligation to repurchase or liquidate the shares in cash or in any other form. 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 2021

On May 05, 2021, plan beneficiaries were granted the right to receive a total of 3.431.610 shares, of which 3.173.142 performance shares restricted to performance conditions and with gradual vesting over 3 years and 258.468 restricted shares, with a total vesting period of 3 years.
In 2021, the Special Grant was added to the traditional plan, a further extraordinary concession with the aim of encouraging the closure of the Oi purchase operation in Brazil as well as the success of the subsequent integration operations.
Of the total 3.431.610 shares granted, 1.151.285 relate to the traditional grant (with 892.817 performance shares and 258,468 restricted shares) and 2,280,325 refer to the Special Grant.
As at December 31, 2021, the first vesting period has not yet finished. However, 311,876 shares were canceled due to the participants leaving the company.

CALCULATION OF FAIR VALUE MEASUREMENT OF THE GRANTED OPTIONS AND RIGHTS

Parameters used for the assignments of TIM S.A.

Plans/Parameters	Exercise price (reais)	Nominal value (reais)	Volatility (%)	Period	Risk-free interest rate
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
2021 PS/RS Plan	n/a	12,95	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 37 - Other information

EXCHANGE RATE USED TO TRANSLATE FOREIGN OPERATIONS

	Period-end exchange rates		Average exchange rates for the period	
	(statements of financial position)		(income statements and statements of cash flows)	
Local currency against 1 EUR	31/12/2021	31/12/2020	31/12/2021	31/12/2020
BRL (Brazilian real)	6,32047	6,37680	6,35936	5,88806
USD (U.S. dollar)	1,13260	1,22710	1,18285	1,14179
JPY (Japan Yen)	130,38000	126,49000	129,86490	121,81378
GBP (Pound sterling)	0,84028	0,89903	0,85970	0,88940
CHF (Swiss franc)	1,03310	1,08020	1,08136	1,07047

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)	31/12/2021	31/12/2020
Capitalized development costs	21	23
Total research and development costs (expensed and capitalized)	**21**	**23**

AUDITOR'S FEES

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

(thousands of euros)		
Audit services	865	957
Verification services with issue of certification	41	35
Other assurance services	17	52
Total fees due to EY network for the audit and other services	**923**	**1.045**
Out of pocket	51	64
Total	**974**	**1.108**

Note 38 - Events subsequent to December 31, 2021

Payment of Interest on Equity
In January 2022, TIM S.A paid Interest on Capital (IOC) related to the fiscal year ending on December 31, 2021 and approved on December 15, 2021 according to the following schedule:

Payment Date	Reais per share
25/01/2022	0,231366129

Anatel grants prior consent for transfer of control of OI's mobile activities
TIM became aware that in an extraordinary public meeting held at the date of 31st January 2022 by its Board of Directors, ANATEL – Agência Nacional de Telecomunicações unanimously granted prior consent to the implementation of the corporate transaction referring to the full transfer of control of the three specific purpose companies ("Mobile Assets SPE" or "SPE"), which correspond to the mobile telephony activities of Oi Móvel SA – Em Recuperação Judicial ("Oi Móvel"), for the companies TIM, Telefônica Brasil S.A. and Claro S.A. ("Transaction").
Prior consent provides for certain conditions in line with a transaction of this nature, which mainly aim to guarantee access by small providers to nationwide networks, maintain commitments linked to the transferred radio frequencies, establish the minimum parameters of the communication plan linked to the Transaction and grant users certain rights in the migration steps.
The conclusion of the Transaction still depends on the fulfillment of other precedent conditions, including the approval of the Concentration Act No. 08700.000726/2021-08 by the Conselho Administrativo de Defesa Econômica - CADE.

CADE approves acquisition of OI's mobile business by TIM Brasil
The offer submitted by TIM S.A., Brazilian subsidiaries of the TIM Group, for the acquisition of the mobile assets of the Oi Group, together with Telefônica Brasil S.A. (VIVO) and Claro S.A., has been approved by the antitrust Authority CADE (Conselho Administrativo de Defesa Economica).
The decision follows the pronunciation of the reglementary Authority Anatel (Agência Nacional de Telecomunicações), which on February 1 last, had expressed itself in favor of the transfer of control of Oi's mobile assets.
The closing of the deal, which will define a new infrastructure structure for the Telco market in Brazil, still depends on the fulfillment of specific steps foreseen in the Sale and Purchase Agreement. The operation, with which TIM Brasil will acquire the most relevant share of the assets of the Oi Group, is expected to bring significant benefits to the Brazilian TLC sector, maintaining a high degree of competiton and ensuring the necessary investments for the development of the country's digital advancement.
TIM reaffirms that 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 Brazil, which will be strengthened in its investment capacity, technological innovation, as well as its competitiveness.

Mr. Alberto Griselli appointed as CEO of TIM S.A.
TIM S.A. communicates that on January 21, 2022 its Board of Directors ("Company's Board") accepted the resignation of Mr. Pietro Labriola from the positions of Chief Executive Officer ("CEO") and board member of the Company.
The Company's Board has subsequently appointed Mr. Alberto Mario Griselli to replace Mr. Labriola in both the CEO and board member positions effectively immediately. Mr. Griselli's election to the Company's Board needs to be confirmed by the next Annual General Meeting of TIM.

Invasion of the Ukraine by Russia

In February 2022, Russia launched a military operation invading the Ukrainian territory, the consequences on the world political-economic balance are incalculable.

The European Union, together with a great many other countries, have implemented particularly harsh financial sanctions against Russia and Belarus, and others may follow suit gradually.

More generally, there may be effects also due to the increase in the prices of commodities, energy costs, the cost of money, the reduction in the demand for international telecommunications services in the countries at conflict, delays in the delivery of goods and increased transport costs, which may further strike the procurement chain with impacts that are today difficult to assess.

Neither the Group performance and going concern nor operations, at the date of this report, have been significantly impacted by the above.

Note 39 - 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	13.477.890.508	66,5882 0,0165	66,5992	TIM Brasil Serviços & Partecipações S.A. TIM S.A.
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD						
I-System S.A.	Rio de Janeiro	BRL	1.794.287.995	49,0000		TIM S.A.
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.

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. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 31 December 2021, 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 2021, 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 N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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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 2,6 billion were disclosed by the Group as possible losses as disclosed in note 23. The determination of the amount of the provision and the amounts disclosed depends on critical judgments made by management, based on the analysis of the proceedings and the corresponding prognosis for their final resolution by its legal advisors. The audit of management's assessment of the likelihood of loss in tax proceedings is complex, highly subjective and based on interpretations of tax legislation and court decisions, since there is significant uncertainty in the estimates as to the outcome of court decisions, how formerly adjudged cases have evolved and the position of the tax authorities. In addition, in view of the magnitude of the amounts involved, any changes in estimates or assumptions that impact the determination of the loss prognosis may have significant impacts on the Group's financial statements. Accordingly, this was considered as a key audit matter.

Our answer

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

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

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

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

Sale of 51% equity interest in I-System (formerly FiberCo Soluções Infraestrutura S/A)

Risk identified

On 16 November 2021, the Group sold 51% of its equity interest held in I-System, generating a gain of Euro 119 million, which was measured as the difference between the fair value of the consideration received and the share of the carrying value of the disposed net assets of I-System.
The determination of the carrying value of the disposed net assets of I-System involved identifying and measuring the assets, the liabilities and the goodwill allocated to I-System as of the closing date of the transaction.
Considering the level of judgment required in defining the portion of the Brazil CGU Goodwill to be allocated to I-System and the implications of the loss of control, we considered this area as a key audit matter. Disclosures related to the transaction are reported in note 8 "Investments".

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Our answer

Our audit procedures in response to the key audit matter included, among others:

(i) Getting an understanding of the process put in place by Management for selling I-System
(ii) Testing the effectiveness of the controls relevant for this process
(iii) Obtaining an analysis of the transaction agreement;
(iv) Validating the accuracy of the gain resulting from the transaction;
(v) Validating the key inputs, data and assumptions used by Management to determine the allocation of goodwill to I-System with the support of our valuation experts;
(vi) Assessing Management's application of the criteria for the loss of control;
(vii) Analysing Management´s assessment of the master service agreement under an IFRS 16 perspective.

In performing our analysis, we involved our tax experts to evaluate the tax impacts of the transaction.
Lastly, we reviewed the adequacy of the disclosures provided in the notes to the consolidated financial statements.

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.

The Board of Directors is also responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format, as amended ("ESEF Regulation").

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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.

Those charged with governance are responsible for overseeing Group's financial reporting process.

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

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

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

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

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

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

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

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

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- Assess whether the consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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

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

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

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

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the General Meeting of the Shareholders on 25 May 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 years.

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

The corporate governance statement, as published on the Company's website, www.tifinance.lu., is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent, at the date of this report, with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have checked the compliance of the consolidated financial statements of the Group as at 31 December 2021 with relevant statutory requirements set out in the ESEF Regulation that are applicable to the financial statements. For the Group, it relates to:

- Financial statements prepared in valid xHTML format;
- The XBRL markup of the consolidated financial statements using the core taxonomy and the common rules on markups specified in the ESEF Regulation.

In our opinion, the consolidated financial statements of the Group as at 31 December 2021, identified as tel-2021-12-31-en.zip (tel-2021-12-31-en.xhtml), have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

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, 1 April 2022