Telecom Italia Finance Group

Half-Year Condensed Consolidated Financial Statements at June 30, 2019

Unaudited Half-Year Condensed Consolidated Financial Statements as at June 30, 2019, which have been authorized by the Board of Directors held on July 31, 2019

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Directors' report

The Business Units

BRAZIL

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

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

OTHER OPERATIONS

This Business Unit provides financial assistance to TIM Group companies and the management of liquidity buffer through money market instruments.
As of June 30, 2019:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) is 1.015 million euros.
- The amount of net financial debt is equal to -3.103 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(millions of euros)	1st Half 2019	1st Half 2018
Revenues	**1.946**	**2.001**
EBITDA	**1.463**	**701**
EBIT	**859**	**248**
Profit (loss) before tax from continuing operations	712	158
Profit (loss) for the period	**488**	**125**
Profit (loss) for the period attributable to Owners of the Parent	326	77
Capital expenditures	**369**	**385**

Consolidated Financial Position Data

(millions of euros)	30/06/2019	31/12/2018
Total assets	**15.145**	**13.354**
Total equity	**8.737**	**8.206**
Attributable to Owners of the Parent	7.031	6.688
Attributable to non-controlling interests	1.706	1.518
Total liabilities	**6.408**	**5.148**
Total equity and liabilities	**15.145**	**13.354**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-1.226**	**-2.872**

Headcount

	30/06/2019	31/12/2018
Number in the Group at period end	9.422	9.669
Average number in the Group	8.971	9.138

Highlights

ADOPTION OF NEW ACCOUNTING PRINCIPLES

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

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

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance of 1st half 2019:

- **Consolidated revenues** amounted to 2,0 billion euros, down 2,7% compared to the same period 2018.
- **EBITDA** amounted to 1,5 billion euros, up by 108,9% on the 1st half 2018.
- **Operating profit (EBIT)** was 0,9 billion euros, up by 246,4% on the 1st half 2018.
- The **Profit for the period attributable to Owners of the Parent** amounted to 326 million euros (Profit attributable to Owners of the Parent for 77 million euros on the 1st half 2018).
- **Capital expenditures** in 1st half 2019 amounted to 369 million euros (385 million euros in 1st half 2018).
- **Net financial debt** amounts to -1.226 million euros at June 30, 2019, down of 1.647 million euros on December 31, 2018.

NON-RECURRING EVENTS

In the 1st half 2019, the Group recognized non-recurring net operating income connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. The impact is entirely attributable to the Brazil BU. In detail:

Net non-recurring income

(millions of euro)	1st Half 2019
Other Income – Tax receivable due to changes in base calculation	662
Acquisition of good and services – Legal Services	-1
Employee benefits expenses - Labor Contingency	-15
Other operating expenses - Labor Contingency -third part employees	-17
Other operating expenses - Tax Contingency	-19
Impact on EBIT	**610**
Finance expenses - Monetary restatement on labor contingency	-2
Finance expenses - Monetary restatement on tax contingency	-17
Finance expenses - Monetary restatement on civil contingency	-5
Impact on Profit (loss) before tax from continuing operations	**586**
Fiscal impact on above transactions	-199
Impact on Profit (loss) from continuing operations	**387**

Other operating income of the first half of 2019 benefited for 662 million euros related to the recognition of tax credits as result of the tax disputes connected with including the ICMS indirect tax in the basis of calculation of the taxes on PIS and COFINS revenues. On this matter, the BU has been in court since 2006 and reimbursement requests related - as allowed - to the previous five years, and therefore with effect from 2001. The amount includes 396 million euros concerning the recovery of indirect taxes and 266 million euros for the legal revaluation. The use of the recognized tax receivables is expected to start in the second half of 2020 and will be subject to taxation; in the first half of 2019, therefore, deferred direct taxes were also recognized for an amount of approximately 225 million euros.

Non-recurring charges are mainly related to regulatory disputes and liabilities connected to them, as well as to liabilities with customers and/or suppliers.

Consolidated operating performance

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

	Other operations (millions of euros)			Brazil Business Unit (millions of euros)			(millions of reais)			Change	
	1st Half 2019	1st Half 2019 comparable	1st Half 2018	1st Half 2019	1st Half 2019 comparable	1st Half 2018	1st Half 2019	1st Half 2019 comparable (a)	1st Half 2018 (b)	Amount (a-b)	% (a-b)/b
Revenues	-		-	1.946	1.946	2.001	8.454	8.454	8.282	172	2,1
EBITDA	-3	-3	-4	1.466	1.321	704	6.370	5.738	2.915	2.823	96,8
EBITDA Margin				75,3	67,9	35,2	75,3	67,9	35,2		32,7pp
EBIT	-3	-3	-4	863	863	252	3.747	3.749	1.042	2.707	259,8
EBIT Margin				44,3	44,3	12,6	44,3	44,3	12,6		31,7pp
Headcount at period end (number)	11	11	11[*]				9.411	9.411	9.658[*]	- 247	-2,6

[*] Figures as of December 31, 2018.

<u>REVENUES</u>

All the revenues are related to Brazil Business Unit.
Revenues for 1st Half 2019 amounted to 8.454 million reais, up by 172 million reais on the first half of 2018 (+2,1%).
Revenues from services totaled 8.088 million reais, an increase of 134 million reais compared to 7.954 million reais for the first half of 2018 (+1,7%).
Revenues from product sales came to 366 million reais (328 million reais in the first half of 2018). The increase reflects the change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new retention offerings for higher-value postpaid customers.
Mobile ARPU of the first half of 2019 was 23,0 reais, up 5,0% compared to the figure posted in the first half of 2018 due to an overall repositioning on the postpaid segment and new commercial initiatives aimed at boosting use of data and the customer's average spending.
Total lines in place at June 30, 2019 amounted to 55,0 million, a decline of 0,9 million compared to December 31, 2018 (55,9 million). The lower figure was driven entirely by the prepaid segment (-2,0 million), only partially offset by growth in the post-paid segment (+1,1 million), in part due to the consolidation underway in the market for second SIM cards. Postpaid customers accounted for 38,8% of the customer base at June 30, 2019, an increase of 2,6 percentage points on December 2018 (36,2%).

	1st Half 2019	1st Half 2018
(millions of reais)		
Net revenues	**8.454**	**8.282**
Service revenues	8.088	7.954
Mobile services	7.628	7.536
Fixed services	460	418
Product revenues	366	328
(thousands)		
Lines at period end	**54.972**	**55.923[*]**
Average Market Lines	**55.157**	**57.267**
(reais)		
Mobile ARPU (mobile services/average market lines/months)	**23,0**	**21,9**

[*] Lines as of December 31, 2018.

EBITDA

EBITDA totaled 1.463 million euros, of which 1.466 million euros attributable to the Brazil BU.

Comparable EBITDA for the first half of 2019 amounted to 5.738 million reais, up by 2.823 million reais year-on-year (+96,8%). The EBITDA margin, on the same accounting basis, rose by 32,7 percentage points on the first half of 2018 to reach 35,2%.
Organic EBITDA, net of the non-recurring component, amounted to 3.088 million reais. In particular, EBITDA for the first half of 2019 included 2.650 million reais of non-recurring net income, connecting to the aforementioned recognition of tax credits for an amount of 2.876 million reais - from the recognition by the Brazilian Federal Supreme Court ("STF") of the unconstitutionality of the inclusion of the ICMS in the calculation base of PIS/COFINS contributions - which were offset by charges for non-recurring expenses, for an amount of 226 million reais, mainly for regulatory disputes and liabilities related to them, as well as to liabilities with customers and/or suppliers.

Organic EBITDA is calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	1st Half 2019 comparable (a)	1st Half 2018 (b)	1st Half 2019 comparable (c)	1st Half 2018 (d)	Amount (c-d)	% (c-d)/d
EBITDA	**1.321**	**704**	**5.738**	**2.915**	**2.823**	**96,8**
+/- Non recurring income/(expenses)	-610	-1	-2.650	-3	-2.647	88.233,3
=Organic EBITDA	**711**	**703**	**3.088**	**2.912**	**176**	**6,0**

Growth in EBITDA, excluding the aforementioned non-recurring items, was equal to + 5,9% and was attributable to both the positive performance of revenues and the benefits delivered by projects to enhance the efficiency of the operating expenses structure.

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

	(millions of euros)		(millions of reais)		
	1st Half 2019 comparable (a)	1st Half 2018 (b)	1st Half 2019 comparable (c)	1st Half 2018 (d)	Change (c-d)
Acquisition of goods and services	906	972	3.935	4.025	- 90
Employee benefits expenses	170	154	737	636	101
Other operating expenses	276	243	1.197	1.005	192
Change in inventories	-7	-12	-31	-49	18

EBIT

EBIT totaled 859 million euros (248 million euros in the same period 2018), up 612 million euros.

Comparable EBIT for the first half of 2019 amounted to 3.749 million reais, up by 2.707 million reais (+259,8%) on the same period of the previous year (1.042 million reais). Growth was mainly driven by higher amortization (114 million reais) that was partially offset by the higher EBITDA (+2.823. million reais).

Organic EBIT, net of the non-recurring component, amounted to 1.099 million reais and is calculated as follows:

	(millions of euros)		(millions of reais)		Change	
	1st Half 2019 comparable (a)	1st Half 2018 (b)	1st Half 2019 comparable (c)	1st Half 2018 (d)	Amount (c-d)	% (c-d)/d
EBIT	**863**	**252**	**3.749**	**1.042**	**2.707**	**259,8**
+/- Non recurring income/(expenses)	-610	-1	-2.650	-3	-2.647	88.233,3
=Organic EBIT	**253**	**251**	**1.099**	**1.039**	**60**	**5,8**

PROFIT (LOSS) FOR THE PERIOD

(millions of euro)	1st Half 2019	1st Half 2018
Profit (loss) for the period	**488**	**125**
Attributable to		
Owners of the Parent	326	77
Non-controlling interests	162	48

CAPITAL EXPENDITURE

All the capital expenditure was referred to the Brazil Business Unit and amounted to 661 million euros. Considering the comparable amount, capital expenditure amounted to 369 million euros showing a decrease of 16 million euros compared to the first half 2018. Excluding the impact of changes in exchange rates (-18 million euros), capital expenditure would be in line with prior year, targeted mainly at the expansion of mobile ultra-broadband infrastructure and the development of the fixed broadband business of TIM Live.

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** increased by 15 million euros as a result of changes in foreign exchange rates applicable to the Group's Brazilian operations. Further details are provided in the Note "Goodwill".
- **Other intangible assets** decreased by 143 million euros representing the balance of the following items:
  - Adjustments for accounting principles (-65 million euros)
  - Capex (+74 million euros)
  - Amortization charge for the year (-201 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of +49 million euros).
- **Tangible assets** decreased by 118 million euros representing the balance of the following items:
  - Adjustments for accounting principles (-195 million euros)
  - Capex (+295 million euros)
  - Depreciation charge for the year (-252 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net balance of +34 million euros).
- **Rights of use third-party assets**: after IFRS 16 (Leasing) was adopted, the Group decided to classify rights of use third-party assets under a specific item of the statements of financial position. At June 30, 2019 they totaled 1.491 million euros. Recognized during the first half of 2019 were:
  - Investments and increases in finance leasing contracts (+173 million euros)
  - Amortization charge for the period (-156 million euros)
  - Disposals, exchange differences and other changes (for a net balance of +30 million euros).

Consolidated equity

Consolidated equity amounted to 8.737 million euros (8.206 million euros at December 31, 2018), of which 7.031 million euros attributable to Owners of the Parent (6.688 million euros at December 31, 2018) and 1.706 million euros attributable to non-controlling interests (1.518 million euros at December 31, 2018).

Cash flows

The details of Group cash flows are as follow:

(millions of euros)	1st Half 2019	1st Half 2018
Cash flows from (used in) operating activities	274	412
Cash flows from (used in) investing activities	-435	-1.383
Cash flows from (used in) financing activities	179	-157
Aggregate cash flows	**18**	**-1.128**
Net foreign exchange differences on net cash and cash equivalents	5	-53
Net cash and cash equivalents at beginning of the period	**1.359**	**2.717**
Net cash and cash equivalents at end of the period	**1.377**	**1.589**

Net financial debt

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

(millions of euros)	Other operations		Brazil Business Unit	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Non-current financial liabilities	1.822	1.695	1.895	510
Current financial liabilities	807	850	303	200
Total gross financial debt	**2.629**	**2.545**	**2.198**	**710**
Non-current financial assets	-1	-1	-35	-36
Current financial assets	-3.311	-3.363	-280	-435
Net financial debt as per ESMA	**-683**	**- 819**	**1.883**	**239**
Other Non-current financial assets	-2.420	-2.285	-6	-7
Net financial debt	**-3.103**	**-3.104**	**1.877**	**232**

Main changes in the regulatory framework

Brazil

Revision of the model for the provision of telecommunications services
In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a "diagnosis" on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October 2017, the bill PLC 79/2016 was referred back to the Senate and remain there awaiting to be voted. Its approval is expected to be held over the course of 2019.
In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy proposing the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of "smart cities". The Public Consultation was memorialized in Decree 9612/2018 ("Connectivity Plan") and established a series of guidelines for execution of terms of conduct adjustment, onerous granting of spectrum authorization and regulatory acts in general which includes: (i) expansion of high capacity telecommunications transport networks; (ii) increased coverage of mobile broadband access networks; and (iii) broadening the coverage of fixed broadband access network in areas with no internet access offer through this type of infrastructure. It also establishes that the network implemented from the commitments will be subject to sharing from its entry into operation, except when there is appropriate competition in the respective relevant market.
In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of ex-ante obligations (Plano Geral de Metas de Competição – PGMC). Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP). In July 2018, Anatel published the new PGMC revising some points and defining two new markets: (i) interconnection for mobile services; and (ii) high capacity data transmission.
TIM Brasil has been identified as the SMP operator on the: (i) mobile network terminations; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).
The measures adopted for the SMP operator on these markets include:

- a reduction in mobile termination rates based on a price cap system and partially maintaining a Bill & Keep mechanism, until the next review of the PGMC;
- the obligation for non-SMP operators to offer national roaming services.

The obligation for vertically integrated landline operators with an SMP to access the copper network (e.g.: leased lines, bitstream and full unbundling) was maintained.

With the new PGMC, alternative operators may not apply asymmetrical interconnection rates above 20% the rate applied by incumbent operators. Since 2016, fixed interconnection rates have been based on a cost-oriented approach.

700 MHz and Analog TV switch off

In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1,7 billion reais, and with additional commitments of 1,2 billion reais (in four annual installments, adjusted for inflation) as a contribution to the consortium established by the tender ("EAD") for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais) was made in April 2015 and another two payments (for a total of 860 million reais) were both made in January 2017, while the final installment (142 million reais) was duly paid in January 2018.

In June 2019, the spectrum was freed up for mobile operations in all of the Brazilian municipalities. Currently about 3.012 cities and all Brazilian capitals have already 4G mobile service operation in the 700 MHz range, and 1.379 cities had the analog TV shut down.

"Marco Civil da Internet" and Network Neutrality

The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law No. 12965/2014, defined network neutrality as the "duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application". On May 11, 2016, Brazilian Presidential Decree No. 8771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.

In August 2017, the oversight board ("GS") of the Administrative Council for Economic Defense (CADE) handed down a decision in favor of Brazil's mobile TLC providers, which excluded the imposition of fines in relation to a preliminary investigation into alleged unfair competition in "zero rating" offers and promotions on Internet data consumption. The oversight board heard the depositions of various parties, including the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel, and concluded that Internet business models should not be banned ex-ante, but instead should be monitored comprehensively to prevent any unfair competition outcomes.

Strategic Digital transformation and the Internet of Things (IoT)

Between December 15, 2016 and February 5, 2017, the MCTIC conducted a public consultation process to discuss the public procedure for solutions enabling Machine to Machine (M2M) and Internet of Things (IoT) services for the Brazilian market. The final consultation report was published in November, with the objective of addressing regulatory and tax matters, as well as aspects of public procedure, investment, and education issues.

In August and September 2017, the MCTIC conducted a public consultation process on Digital Transformation Strategy (E-Digital), with the aim of widening discussion and creating strategies for the digitization of the Brazilian economy. An E-Digital Decree (9319/2018) has now been published, identifying around 100 strategic actions aimed at boosting competition and on-line productivity levels in the country, while raising connectivity and digital inclusion levels. The actions seek to address the main strategic issues for the digital economy, including connectivity infrastructure, the use and protection of data, IoT, and cyber-security.

In July 2018, Anatel also requested funding for a Public Consultation on future IoT regulation and a reduction in entry barriers to expand IoT. The main issues addressed by Anatel were: (i) the need for a license; (ii) use of the spectrum; (iii) quality and consumer protection; (iv) taxes. The Public Consultation is expected to be held in the second half of 2019.

In June 2019, the Decree on the National Plan for Internet of Things (Decree 9,854/2019) was published in order to regulate and encourage this technology in Brazil. It refers to IoT as "the infrastructure that integrates the provision of value-added services with physical or virtual connection capabilities of things with devices based on existing information and communication technologies and their evolution, with interoperability. The decree lists the following subjects as required to further support National Plan for Internet of Things: (i) science, technology and innovation; (ii) international insertion; (iii) vocational education and training; (iv) connectivity and interoperability infrastructure;(v) regulation, security and privacy; (iv) economic viability.

Data protection

On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13709/2018). The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company's global turnover of the previous financial year.

In December, 2018, Provisional Measure 869/2018 passed by the former Brazilian president amended Law 13.709 to create the National Data Protection Authority (ANPD), within the structure of the Presidency of the Republic, which implies in a larger control by the State and to, among other topics, extend to 24 months the entry into force of the Law (August 2020), by which date all legal entities will be required to adapt their data processing activities to these new rules.

In July 2019, Provisional Measure 869/2018 was converted into law 13.853, keeping the ANPD, as a federal public administration body, within the structure of the Presidency of the Republic.

Events subsequent to June 30, 2019

For details of subsequent events, see the specific Note "Events Subsequent to June 30, 2019".

Business outlook for the 2nd Half 2019

The Group is working on the implementation and roll-out of the Plan in its Brazil market. For more details on the main drivers of focus for the outlook of the Group, see the Annual Financial Report at December 31, 2018.

Main risks and uncertainties

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

Strategic risks

Risks related to macro-economic factors
The Group's economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates.
In Brazil, the expected results may be significantly affected by the macroeconomic and political situation. After two years of negative GDP growth – one of the deepest and longest recessions in its history – Brazil returned to growth in 2017 (+1) and 2018 came to an end with 1,1% growth over the previous year. Banco Central do Brasil recently announced growth in GDP 2% lower for 2019. The elections which ended with the new president voted in with a considerable popular majority should help to attenuate the political uncertainty and boost the confidence of households and businesses, and in any case the approval of the most important reforms such as social security and tax reform are considered essential conditions for the economy to recover.

Risks related to competition
The Brazilian telecommunications market, where TIF Group is engaged through its subsidiary TIM Servicos y Participacoes (TIM BR) is characterized by strong competition that may reduce market share as well as erode prices and margins. Moreover, the telecommunications sector in Brazil is marked by the effective regulation of the National Telecommunications Agency, ANATEL.

Operational risks

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

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

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

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

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

Risks related to disputes and litigation
TIF Group has to deal with disputes and litigation with tax authorities and government agencies, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of 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

For details of financial risks, see the specific Note "Financial risks management" in the annual consolidated financial statements at December 31, 2018.

Regulatory and compliance risks

Regulatory risks
The telecommunications industry is highly regulated. In this context, new decisions by the Communications 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.
At TIM Group level, the Internal Control and Risk Management System involves several components acting in a coordinated way accordingly to their respective responsibilities –the Board of Directors, with the responsibility to direct and provide strategic supervision; the Executive Directors and Management with the responsibility to control and manage; the Control and Risk Committee and the Head of the Group Audit Department, with the responsibility to monitor, control and provide support to the Board of Directors.

Information for investors

Brazil – shares

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

Alternative Performance Measures

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

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

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

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

- **Organic change and impact of the non-recurring items on revenues, EBITDA and EBIT:** these measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding the non-recurring events and transactions. Telecom Italia Finance believes that this method of presentation provides a more complete and effective interpretation of the Group's operating performance.

- **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 5 - Intangible assets with a finite useful life and Note 6 - 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 14 - Net Financial Debt details the calculation for the Group.

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

Corporate Governance Statement

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

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Consolidated Statements of Financial Position

Assets

(millions of euros)	Note	30/06/2019	31/12/2018
Non-current assets			
Intangible assets		**2.792**	**2.920**
Goodwill	[4]	884	869
Intangible assets with a finite useful life	[5]	1.908	2.051
Tangible assets	[6]	**2.336**	**2.454**
Property, plant and equipment owned		2.336	2.259
Assets held under finance leases		-	195
Right of use third-party assets	[7]	**1.491**	**-**
Other non-current assets		**3.811**	**3.231**
Other investments	[8]	61	61
Non-current financial assets	[9]	2.462	2.329
Miscellaneous receivables and other non-current assets	[10]	1.288	664
Deferred tax assets		-	177
Total Non-current assets		**8.939**	**8.605**
Current assets			
Inventories		49	41
Trade and miscellaneous receivables and other current assets	[11]	1.009	833
Current income tax receivables		66	78
Current financial assets	[9]	**3.591**	**3.797**
Securities other than investments, financial receivables and other current financial assets		2.202	2.401
Cash and cash equivalents		1.389	1.396
Total Current assets		**4.715**	**4.749**
TOTAL ASSETS		**15.145**	**13.354**

The accompanying notes are an integral part of these half-year accounts.

Equity and Liabilities

(millions of euros)	Note	30/06/2019	31/12/2018
Equity	[12]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the period		5.212	4.869
Equity attributable to owners of the Parent		**7.031**	**6.688**
Non-controlling interests		**1.706**	**1.518**
TOTAL EQUITY		**8.737**	**8.206**
Non-current liabilities			
Non-current financial liabilities	[13]	3.717	2.205
Employee benefits		1	1
Deferred tax liabilities		15	-
Provisions	[17]	250	189
Miscellaneous payables and other non-current liabilities	[18]	255	259
Total Non-current liabilities		**4.238**	**2.654**
Current liabilities			
Current financial liabilities	[13]	1.110	1.050
Trade and miscellaneous payables and other current liabilities	[17][19]	1.010	1.402
Current income tax payables		50	42
Total Current Liabilities		**2.170**	**2.494**
TOTAL LIABILITIES		**6.408**	**5.148**
TOTAL EQUITY AND LIABILITIES		**15.145**	**13.354**

The accompanying notes are an integral part of these half-year accounts.

Separate Consolidated Income Statements

(millions of euros)	Note	1st Half 2019	1st Half 2018
Revenues	[21]	1.946	2.001
Other income		671	12
Total operating revenues and other income		**2.617**	**2.013**
Acquisition of goods and services		-761	-973
Employee benefits expenses		-170	-154
Other operating expenses		-278	-245
Change in inventories		7	12
Internally generated assets		48	48
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.463**	**701**
Depreciation and amortization		-609	-459
Gains/(losses) on disposals of non-current assets		5	6
Impairment reversals (losses) on non-current assets		-	-
Operating profit (loss) (EBIT)		**859**	**248**
Finance income	[22]	300	350
Finance expenses	[22]	-447	-440
Profit (loss) before tax from continuing operations		**712**	**158**
Income tax expenses		-224	-33
Profit (loss) from continuing operations		**488**	**125**
PROFIT (LOSS) FOR THE PERIOD		**488**	**125**
Attributable to			
Owners of the Parent		326	77
Non-controlling interests		162	48

The accompanying notes are an integral part of these half-year accounts.

Consolidated Statements of Comprehensive Income

(millions of euros)		1st Half 2019	1st Half 2018
Profit (loss) for the period	**(a)**	**488**	**125**
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	**(b=c)**	**-1**	**-**
Financial assets measured at fair value through other comprehensive income:	**(c)**	**-1**	**-**
Profit (loss) from fair value adjustments		-1	-
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements	**(d=e+f+g)**	**96**	**-632**
Financial assets measured at fair value through other comprehensive income:	**(e)**	**11**	**-17**
Profit (loss) from fair value adjustments		14	-13
Loss (profit) transferred to the Separate Consolidated Income Statements		-3	-4
Hedging instruments:	**(f)**	**0**	**0**
Profit (loss) from fair value adjustments		0	0
Loss (profit) transferred to the Separate Consolidated Income Statements		-	-
Exchange differences on translating foreign operations:	**(g)**	**85**	**-615**
Profit (loss) on translating foreign operations		85	-615
Other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**	**96**	**-632**
Total comprehensive income (loss) for the period	**(i=a+h)**	**584**	**-507**
Attributable to			
Owners of the Parent		396	-370
Non-controlling interests		188	-137

The accompanying notes are an integral part of these half-year accounts.

Consolidated Statements of Changes in Equity

Changes from January 1, 2019 to June 30, 2019

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for cash-flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2019	**1.819**	**3.148**	**-463**	**1**	**-1.360**	**-**	**-**	**3.543**	**6.688**	**1.518**	**8.206**
Adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-
Adjusted Balance at January 1, 2019	**1.819**	**3.148**	**-463**	**1**	**-1.360**	**-**	**-**	**3.543**	**6.688**	**1.518**	**8.206**
Changes in equity during the period:											
Dividends approved	-	-	-	-	-	-	-	-53	**- 53**	-	**-53**
Total comprehensive income (loss) for the period	-	-	11	-	60	-	-	326	**397**	188	**585**
Other changes	-	-	-	-	-	-	-	-1	**- 1**	-	**-1**
Balance at June 30, 2019	**1.819**	**3.148**	**- 452**	**1**	**-1.300**	**-**	**-**	**3.815**	**7.031**	**1.706**	**8.737**

Changes from January 1, 2018 to June 30, 2018

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for cash-flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2018	**1.819**	**3.148**	**-7**	**1**	**-968**	**-**	**-**	**2.820**	**6.813**	**1.557**	**8.370**
Adoption of IFRS 15 and IFRS 9	-	-	-419	-	-	-	-	408	-11	-5	-16
Adjusted Balance at January 1, 2018	**1.819**	**3.148**	**-426**	**1**	**-968**	**-**	**-**	**3.228**	**6.802**	**1.552**	**8.354**
Changes in equity during the period:											
Dividends approved	-	-	-	-	-	-	-	-38	**- 38**	-18	**-56**
Total comprehensive income (loss) for the period	-	-	-17	-	-430	-	-	77	**- 370**	-137	**- 507**
Other changes	-	-	-	-	-	-	-	1	**1**	-	**1**
Balance at June 30, 2018	**1.819**	**3.148**	**- 443**	**1**	**-1.398**	**-**	**-**	**3.268**	**6.395**	**1.397**	**7.792**

The accompanying notes are an integral part of these half-year accounts.

Consolidated Statements of Cash Flows

(millions of euros)	Note	1st Half 2019	1st Half 2018
Cash flows from operating activities:			
Profit (loss) from continuing operations		488	125
Adjustments for:	[5],[6]		
Depreciation and amortization		609	459
Impairment losses (reversals) on non-current assets (including investments)		2	-
Net change in deferred tax assets and liabilities		192	6
Losses (gains) realized on disposals of non-current assets (including investments)		-5	-6
Change in inventories		-8	-7
Change in trade receivables and net amounts due from customers on construction contracts		-48	19
Change in trade payables		-56	-71
Net change in current income tax receivables/payables		20	-16
Net change in miscellaneous receivables/payables and other assets/liabilities and other changes		-920	-97
Cash flows from (used in) operating activities		**274**	**412**
Cash flows from investing activities:			
Purchase of intangible assets, property, plant and equipment and rights of use assets on a cash basis		-645	-607
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		202	-783
Proceeds from sale/repayment of intangible, tangible and other non-current assets		8	7
Cash flows from (used in) investing activities		**- 435**	**-1.383**
Cash flows from financing activities:			
Change in current financial liabilities and other		17	182
Proceeds from non-current financial liabilities (including current portion)		395	-
Repayments of non-current financial liabilities (including current portion)		-160	-279
Changes in hedging and non-hedging derivatives		2	-9
Dividends paid		-75	-51
Cash flows from (used in) financing activities		**179**	**- 157**
Aggregate cash flows		**18**	**-1.128**
Net foreign exchange differences on net cash and cash equivalents		**5**	**-53**
Net cash and cash equivalents at beginning of the year	**[8]**	**1.359**	**2.717**
Net cash and cash equivalents at end of the period	**[8]**	**1.377**	**1.589**

Additional Cash Flow Information

(millions of euros)	1st Half 2019	1st Half 2018
Income taxes (paid) received	-26	-30
Interest expense paid	-186	-217
Interest income received	82	103

The accompanying notes are an integral part of these half-year accounts.

Notes to the Half-Year Accounts

Note 1 – Form, content and other general information

FORM AND CONTENT

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

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

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

The Half-Year Condensed Consolidated Financial Statements at June 30, 2019 of the Group were authorized for issue with a resolution of the Board of Directors on July 31, 2019.

The Half-Year Condensed Consolidated Financial Statements at June 30, 2019 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS"). In particular, they have been prepared in accordance with IAS 34 (Interim Financial Reporting) and, as permitted by that standard, do not include all the information that would be required in annual financial statements; accordingly, these financial statements should be read together with the 2018 Telecom Italia Finance Group Consolidated Financial Statements.

The Half-Year Condensed Consolidated Financial Statements at June 30, 2019 have been prepared on a going concern basis (for further details see Note "Accounting policies").

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

FINANCIAL STATEMENT FORMATS

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

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

Furthermore, according to IAS 1 (paragraphs 97 and 98), certain expense and income items that are material in terms of nature and amount are separately disclosed in the notes to the separate consolidated income statement. Specifically, such items include: income/expenses arising from the disposal of property, plant and equipment, business segments and investments; expenses resulting from corporate restructuring, reorganizations and other corporate transactions (mergers, spin-offs, etc.); expenses resulting from regulatory disputes and penalties and associated liabilities; other provisions for risks and charges and related reversals; and impairment losses on goodwill and/or other tangible and intangible assets.

SEGMENT REPORTING

An operating segment is a component of an entity:

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

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

- Telecommunications (or Brazil Business Unit): includes mobile and fixed telecommunications operations in Brazil;
- Other Operations: includes TI Finance, that provides financial assistance to TIM Group companies.

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

Note 2 – Accounting policies

GOING CONCERN

The Half-Year Condensed Consolidated Financial Statements at June 30, 2019 have been prepared on a going concern basis as there is the reasonable expectation that the Group will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).
In particular, consideration has been given to the following factors:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Group are exposed:
  - macroeconomic changes in the European and the Brazilian market, as well as the volatility of financial markets in the Eurozone, also as a result of the “Brexit” referendum in the United Kingdom;
  - variations in business conditions, and fluctuations in the competitive environment;
  - changes to laws and regulations (price and rate variations or decisions that may affect the technological choices);
  - 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" in the annual consolidated financial statements at December 31, 2018.

Management believes that, at this time, such factors do not raise substantial doubts as to the Group’s ability to continue as a going concern.

ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

The accounting policies and principles of consolidation adopted in the preparation of the Half-Year Condensed Consolidated Financial Statements at June 30, 2019 have been applied on a basis consistent with those used for the annual consolidated financial statements at December 31, 2018, to which reference should be made, except for:

- the adoption of new principles/interpretations, starting from January 1, 2019 and subsequently described;
- the changes required because of the nature of interim financial reporting.

Furthermore, in the Half-Year Condensed Consolidated Financial Statements at June 30, 2019, income taxes for the period of the individual consolidated companies are calculated according to the best possible estimate based on available information and on a reasonable forecast of performance up to the end of the tax period. Conventionally, the income tax liabilities (current and deferred) on the profit for the interim period of the individual consolidated companies are recorded net of advances and tax receivables (excluding receivables for which refunds have been requested) as well as deferred tax assets, and classified as an adjustment to "Deferred tax liabilities"; if the balance between deferred tax assets and deferred tax liabilities is an asset it is conventionally recognized in "Deferred tax assets".

USE OF ESTIMATES

The preparation of Half-Year Condensed 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 hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the period. 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.
With regard to the most important accounting estimates, please refer to those illustrated in the annual consolidated financial statements at December 31, 2018.

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

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

Amendments to IFRS 9 (Financial Instruments): items with advance payment and with negative compensation
Some limited amendments to IFRS 9 (Financial Instruments) were adopted at European Union level on March 22, 2018 by Commission Regulation (EU) 2018/498.
The amendments in question allow the entity to measure "prepayable with negative compensation" financial assets (e.g. debt instruments where the borrower is allowed to repay early for an amount that may be less than the residual debt including interest due) at the amortized cost or fair value recognized through other comprehensive income rather than at the fair value recognized in profit/loss for the year. The adoption of the amendments had no impact on the Half-year Condensed Consolidated Financial Statements at June 30, 2019.

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

- on how to apply tax legislation for particular transactions or circumstances, or
- if the tax authorities will accept the treatment chosen/applied by the entity. If the entity believes that it is improbable that the applied tax treatment will be accepted, then it must make recourse to estimates (most probable value or expected value) for the determination of the tax treatment (taxable profits, tax base, tax losses not used, unused tax credits, tax rates, etc.). The decision must be based on the method that best assesses the outcome of the uncertainty.

The adoption of said interpretation had no impact on the Half-year Condensed Consolidated Financial Statements at June 30, 2019.

Amendments to IAS 28 (Investments in Associates and Joint Ventures): long-term interests in Investments in associates and joint ventures
Some limited amendments to IAS 28 (Investments in Associates and Joint Ventures) were adopted at the European Union level on February 8, 2019 by Commission Regulation (EU) 2019/237.
IFRS 9 excludes investments in associates and joint ventures that are recognized in accordance with IAS 28. As a result, the entity applies IFRS 9 to other financial instruments held with associates and joint ventures including long-term interests (e.g. financial receivables), to which the equity method is not applied, but which, essentially are part of the net investment in related and joint ventures.
The adoption of the amendments had no impact on the Half-year Condensed Consolidated Financial Statements at June 30, 2019.

Amendments to IAS 19 - Employee Benefits: plan amendment, curtailment or settlement
Some limited amendments to IFRS 19 (Employee Benefits) were adopted at the European Union level on March 13, 2019 by Commission Regulation (EU) 2019/402. These amendments refer to changes, reductions or settlement of defined benefit plans.
In the event of a plan change, reduction or extinction, the changes require an entity to use the updated assumptions of this re-assessment to determine the cost of the current service cost and the net interest for the remaining reporting period after the plan change.

The adoption of the amendments had no impact on the Half-year Condensed Consolidated Financial Statements at June 30, 2019.

Improvements to the IFRS (2015–2017 cycle)
Some improvements to IFRS 2015 - 2017 cycle were adopted at the European Union level on March 14, 2019 by Commission Regulation (EU) 2019/412. In particular, the following is noted:

- Amendments to IFRS 3 Business combinations and to IFRS 11 Joint control agreements: the amendments to IFRS 3 clarify that when an entity, which is already part of a joint operation, gains control of this asset which constitutes a business, the entity must re-measure the equity previously held in the joint control asset at fair value. the amendments to IFRS 11 clarify that when an entity, which is already part of a joint operation, gains control of this asset which constitutes a business, the entity must re-measure the equity previously held in the joint control asset at fair value.
- Amendments to IAS 12 Income Taxes: the amendments clarify that an entity must recognize taxes on dividends in the separate income statement, or in other comprehensive income or equity in relation to the accounting methods of the transaction/event that determined the distributable profits that generated dividends.
- Amendments to IAS 23 Finance expenses: the amendments clarify that if any specific financing remains in place after the related asset is ready for the intended use or sale, this financing becomes part of the funds that an entity uses when calculating the capitalization rate on loans in general.

The adoption of the amendments had no impact on the Half-year Condensed Consolidated Financial Statements at June 30, 2019.

ADOPTION OF THE NEW IFRS 16 STANDARD

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

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

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

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

The application of the new standard is subject to changes until completion of the 2019 financial statements, in synergy with the best market practices.
The Group has a significant number of lease agreements under which it is the lessee. Currently, a portion of these contracts are recognized as operating leases, and their payments are recorded on a straight-line basis throughout the period of the contract. The Group has concluded the study of impacts of this new standard on its financial statements, which included:

- an estimation of the lease term, considering a non-cancelable period and the periods covered by options to extend the lease term, where such exercise depends only on the Group and is reasonably certain;
- a detailed review of the nature of the various lease agreements inherent in the telecommunications industry;

- use of assumptions to calculate the discount rate, which was based on the incremental interest rate for the period of the agreement, among other things. Furthermore, given the relevance of the infrastructure lease agreements, specifically for transmission towers, the Group decided to separately recognize the lease and non-lease components for this class of assets.

The increase in lease liabilities due to the recognition of the right-of-use of the assets results in an increase in the Group net debt, being the depreciation and interest charges recognized in the statement of income as a replacement of the operating lease expenses.
In qualitative terms, the main transactions to be impacted by the new standard include: lease of vehicles, lease of stores and kiosks in shopping malls, lease of sites, land and sharing of infrastructure.

Impacts of the adoption of IFRS 16
The principal adjustments arising from the new standard are as follows:

a. Reclassification of the agreement for reciprocal assignment with consideration for fiber optic infrastructure previously classified as prepaid expenses (Note 11) for property, plant and equipment – right-of-use under lease;
b. Recognition of the asset – right-of-use under lease of the lease payments eligible for the new standard;
c. Increase in the Company's net debt due to the recognition of the lease liability as required by the standard;
d. Leasing – infrastructure (network, land and fiber optics);
e. Leasing – stores & kiosks and vehicles;
f. Leasing – administrative buildings and vehicles;
g. Recognition of the depreciation of the assets mentioned above;
h. Tax impact on the adjustments from the new standard.

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

(millions of euros)	31/12/2018 historical	Reference	Impacts of IFRS 16	01/01/2019 Restated
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	2.051	a)	-65	1.986
Tangible assets				
Assets held under finance leases	195	a)	-195	0
Right of use third-party assets	-	b)	1.444	1.444
TOTAL ASSETS	**13.354**		**1.185**	**14.539**

(millions of euros)	31/12/2018 historical	Reference	Impacts of IFRS16	01/01/2019 Restated
Equity and Liabilities				
Total Equity	8.206		-	8.206
Non-current liabilities				
Non-current financial liabilities	2.205	d) e) f)	1.008	6.426
Current liabilities				
Current financial liabilities	1.050	d) e) f)	177	2.454
TOTAL EQUITY AND LIABILITIES	**13.354**		**1.185**	**14.539**

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

The breakdown of the impact of the new accounting standards on key consolidated income statement figures for the first half of 2019 is shown below.

(millions of euros)	Reference	1st Half 2019	1st Half 2019 comparable	Impact new standards
Acquisition of goods and services	d)	-761	-907	146
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.463**	**1.318**	**145**
Depreciation and amortization	g)	-609	-463	-146
Operating profit (loss) (EBIT)		**859**	**860**	**-1**
Finance income/(expenses)	d)e)f)	-148	-74	-74
Profit (loss) before tax from continuing operations		**712**	**786**	**-74**
Income tax income (expense)	h)	-224	-249	25
Profit (loss) for the period		**488**	**537**	**-49**
Attributable to:				
Owners of the Parent		326	359	-33
Non-controlling interests		162	179	-17

The breakdown of the impact of the new accounting standards on the main consolidated statements of financial position figures at June 30, 2019 is shown below.

(millions of euros)	1st Half 2019	1st Half 2019 comparable	Impact new standards
Assets			
Non-current assets			
Tangible assets			
Property, plant and equipment owned	2.336	2.338	-2
Right of use third-party assets	**1.491**	**261**	**1.231**
Current assets			
Trade and miscellaneous receivables and other current assets	1.009	1.011	-2
TOTAL ASSETS	**15.145**	**13.918**	**1.227**

(millions of euros)	1st Half 2019	1st Half 2019 comparable	Impact new standards
Equity and Liabilities			
Total Equity	8.737	8.779	-42
Non-current liabilities			
Non-current financial liabilities	3.717	2.588	1.129
Deferred tax liabilities	15	36	-21
Current liabilities			
Current financial liabilities	1.110	949	161
TOTAL EQUITY AND LIABILITIES	**15.145**	**13.918**	**1.227**

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

At the reporting date of these half-year condensed consolidated financial statements, the following new standards and interpretations, which have not yet entered into force, had been issued by the IASB.

	Mandatory application starting from
New Standards and Interpretations not yet endorsed by the EU	
Amendments to IFRS 3 (Business combinations)	January 1, 2020
Amendments to IAS 1 and IAS 8 (Definition of Materiality)	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 17: Insurance contracts	January 1, 2021

The impacts, if any, arising from their application on the consolidated financial statements 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".

Note 4 – Goodwill

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

(millions of euros)	**31/12/2018**	Increase	Decrease	Impairments	Exchange differences	**30/06/2019**
Brazil	**869**	-	-	-	15	**884**

In accordance with IAS 36, goodwill is not subject to amortization, but it is tested for impairment at least annually or more frequently, whenever specific events or circumstances occur that may indicate an impairment.

At June 30, 2019, no external or internal events were identified giving reason to believe a new impairment test was required and amounts of goodwill allocated to the Brazil Cash Generating Unit in the consolidated financial statements at December 31, 2018 were therefore confirmed.
In detail, in relation to the Brazilian subsidiary, market capitalization at June 30, 2019 recorded a slight decrease compared to December 2018, showing in any event an implicit value higher than the book value and consequently the absence of elements indicating impairment.

Note 5 – Intangible assets with a finite useful life

All intangible assets with a finite useful life in the first six months of 2019 are referred to Brazil Business Unit.

(millions of euros)	31/12/2018	Adjustment for accounting principles	Capital Expenditures	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	30/06/2019
Industrial patents and intellectual property rights	**794**	-	85	-161	-	14	-	33	**765**
Concessions, licenses, trademarks and similar rights	**736**	-65	-17	-39	-	10	-	431	**1.056**
Other intangible assets	**2**	-	1	-1		1			**3**
Work in progress and advance payments	**519**	-	5	-	-	11	8	-459	**84**
Total	**2.051**	**- 65**	**74**	**- 201**	**-**	**36**	**8**	**5**	**1.908**

The "Adjustment for accounting principles" column refer to the IFRS 16 reclassification of the Indefeasible Rights of Use - IRU relating to the Brazil Business Unit (33 million euros) as well as infrastructure use rights in Brazil - “LT Amazonas” (32 million euros). Following the adoption of IFRS 16, these rights of use have been reclassified under the item "Rights of use third party assets".

Industrial patents and intellectual property rights at June 30, 2019 consisted mainly of software application purchased outright and user license rights.

Concessions, licenses, trademarks and similar rights at June 30, 2019 related mainly to the remaining cost of telephone licenses and similar rights (993 million euros). The other changes mainly relate to the transfer of rights of use relating to the 700 MHz frequencies in Brazil (425 million euros) and the -25 million euros effect of the remeasurement of the value of certain licenses in Brazil following Resolution 695/18 of Anatel.

Work in progress and advance payments includes the amount of the user rights for the 700 MHz frequencies, equal to 54 million euros, acquired in 2014 by the Tim Brasil group for a total of 2,9 billion reais (equal to around 1 billion euros), but not yet in operation. The finance expenses directly attributable to the purchase of these rights have been capitalized since 2014. In the first half of 2019, the capitalized finance expenses totaled 8 million euros, at an annual interest rate of 7,50%; expenses capitalized were deducted directly in the income statement from “Finance expenses”.
The other changes include mainly the transfers of the rights of use of frequencies for mobile telephone services in Brazil.

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

All tangible assets (owned and under finance leases) in the first six months of 2019 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(millions of euros)	31/12/2018	Capital Expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	30/06/2019
Land	**9**	-	-	-	-	-	-	**9**
Buildings (civil and industrial)	**17**	-	-1	-	-	-	-	**16**
Plant and equipment	**1.947**	131	-226	-	-	33	171	**2.056**
Other	**108**	11	-25	-	-2	2	22	**116**
Construction in progress and advance payments	**178**	153	-	-	-	3	-195	**139**
Total	**2.259**	**295**	**-252**	**-**	**-2**	**38**	**-2**	**2.336**

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.

ASSETS HELD UNDER FINANCE LEASES

These amounted to 195 million euros at December 31, 2018.
This figure was reclassified under the new item "Rights of use third-party assets" following adoption of IFRS 16, starting from January 1, 2019. Please refer to the relevant note for further details.

Note 7 – Right of use third-party assets

All right of use third-party assets in the first six months of 2019 are referred to Brazil Business Unit.

(millions of euros)	31/12/2018	Adjustment for accounting principles	Capital Expenditures	Increase in financial leasing contracts	Depreciation and amortization	Disposals	Exchange differences	Other changes	30/06/2019
Property	-	432	-	50	-47	-	7	-	**442**
Plant and equipment	-	1.004	-	122	-107	-	17	6	**1.042**
Other	-	8	-	1	-2	-	-	-	**7**
Total	-	**1.444**	-	**173**	**- 156**	-	**24**	**6**	**1.491**

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

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

“Increases in finance lease contracts” column includes the higher value of rights of use recorded following new rental lease agreements, increases in lease payments and renegotiation of existing contracts. In this regard, it should be noted that the adoption of the new IFRS 16 (Leases) on January 1, 2019 lease agreements (that are not service contracts) are represented in accounting by recognizing a financial liability in the statements of financial position, represented by the current value of future rent charges, against recognition under assets of the right of use of the leased asset.
These increases total 173 million euros, including approximately 142 million euros for greater rights of use for lease agreements under IFRS 16 and for the remaining 31 million euros for greater rights of use for agreements already in place as of December 31, 2018 and previously recognized as finance leases pursuant to IAS 17.

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

The item **Plant and equipment** mainly includes the rights of use on the infrastructures for telecommunications services (808 million euros). Included here, among others, the recognition of the value of the telecommunications towers sold by the Tim Brasil group to American Tower do Brasil and subsequently repurchased in the form of finance lease.

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

Note 8 – Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

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

OTHER INVESTMENTS

(millions of euros)	30/06/2019	31/12/2018
TIM S.p.A.	61	61
Total	**61**	**61**

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

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

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

(millions of euros)	30/06/2019	31/12/2018
Non-current financial assets	**2.462**	**2.329**
Financial receivables for lease contracts	35	37
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1	1
Non-hedging derivatives	712	584
Loans and other financial receivables	1.714	1.707
Current financial assets	**3.591**	**3.797**
Securities other than investments	**746**	**863**
Fair value through other comprehensive income (FVTOCI)	626	683
Fair value through profit or loss (FVTPL)	120	180
Financial receivables and other current financial assets	**1.456**	**1.538**
Financial receivables for lease contracts	1	-
Non-hedging derivatives	28	30
Loans and other financial receivables	1.427	1.508
Cash and cash equivalents	**1.389**	**1.396**
Total non-current and current financial assets	**6.053**	**6.126**

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

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

Hedging derivatives relating to hedged items classified as non-current liabilities of a financial nature refers 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 740 million euros (614 million euros at December 31, 2018). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

Loans and other financial receivables both in current and non-current financial assets amounts to 3.141 million euros (3.215 million euros at December 31, 2018) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. Regarding the loans granted to the ultimate Parent company, the credit risk is considered low based on the financial capability of TIM S.p.A. Other loans are considered fully recoverable by the management, nevertheless, in application of the expected credit loss (“ECL”) model previewed by IFRS9, an impairment of 2 million euros has been recorded as of June 30, 2019 on a notional amount of 1,3 billion euros.

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 311 million euros of treasury bonds and 315 million euros of bonds purchased by the Parent with different maturities, all with an active market and consequently readily convertible into cash. The above government bonds represent investments in "Sovereign debt securities”.
- securities, classified as FVTPL - *Fair value through profit or loss,* due beyond three months. They are related to the investment made by the Brazil Business Unit for an equivalent value of 120 million euros in monetary funds.

Cash and cash equivalents:

(millions of euros)	30/06/2019	31/12/2018
Liquid assets with banks, financial institutions and post offices	1.249	1.175
Securities other than investments (due within 3 months)	140	221
Total	**1.389**	**1.396**

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

(millions of euros)	30/06/2019	31/12/2018
Liquid assets with banks, financial institutions and post offices	1.249	1.175
Securities other than investments (due within 3 months)	140	221
	1.389	**1.396**
Financial payables (due within 3 months)	-12	-37
Total	**1.377**	**1.359**

The different technical forms of investing available cash at June 30, 2019 can be analyzed as follows:
- maturities: all deposits have a maximum maturity date of three months;
- counterparty risk: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB- according to Standard & Poor's with regard to Europe, and with leading local counterparts with regard to investments in South America;
- country risk: deposits have been made mainly by the Parent company in major European financial markets.

Securities other than investments (due within 3 months) included 140 million euros (221 million euros at December 31, 2018) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) taken out by the Brazil Business Unit with premier local banking and financial institutions.

Note 10 – Miscellaneous receivables and other non-current assets

(millions of euros)	30/06/2019	31/12/2018
Miscellaneous receivables	**1.272**	**647**
Other non-current assets	**16**	**17**
Prepaid expenses from customer contracts (contract assets)	6	6
Other prepaid expenses	10	11
Total	**1.288**	**664**

As at June 30, 2019 **Miscellaneous receivables** mainly relate to the Brazil Business Unit for an amount of 1.271 million euros (646 million euros at December 31, 2018). They include receivables for court deposits of 291 million euros (307 million euros at December 31, 2018) and income tax receivables of 47 million euros (46 million euros at December 31, 2018). Furthermore, they included the posting of higher tax credits by the Brazil Business Unit following the favorable result of the tax disputes concerning the inclusion of the ICMS indirect tax in the basis of calculation of the taxes on PIS and COFINS revenues.
Please refer to the "Disputes and pending legal actions, other information, commitments and guarantees" note for further details.

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

Note 11 – Trade and miscellaneous receivables and other current assets

(millions of euros)	30/06/2019	31/12/2018
Trade receivables	**717**	**670**
Receivables from customers	653	602
Receivables from other telecommunications operators	64	68
Miscellaneous receivables	**135**	**101**
Other current assets	**157**	**62**
Prepaid expenses from customer contracts (contract assets)	32	33
Other prepaid expenses	125	29
Total	**1.009**	**833**

As at June 30, 2019 **Trade receivables** related to the Brazil Business Unit amounted to 717 million euros (670 million euros at December 31, 2018) and are stated net of the provision for bad debts of 168 million euros (155 million euros at December 31, 2018).

As at June 30, 2019 **Miscellaneous receivables** amounted to 135 million euros (101 million euros at December 31, 2018) and did not include any provision for bad debts (same as at December 31, 2018). Details are as follows:

(millions of euros)	30/06/2019	31/12/2018
Advances to suppliers	6	10
Receivables from employees	6	1
Tax receivables	102	70
Sundry receivables	21	20
Total	**135**	**101**

As at June 30, 2019 **Tax receivables** included 102 million euros (70 million euros at December 31, 2018) relating to the Brazil Business Unit, largely with reference to local indirect taxes.

Other current assets include prepaid expenses of the Brazil BU for 157 million euros (62 million euros at December 31, 2018), related for 93 million euros to the Fistel fee (Brasilian telecommunication tax), paid in March 2019.

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

Note 12 – Equity

As at June 30, 2019 and December 31, 2018 the authorized, issued and fully paid capital of 1.818.691.978,50 euros is represented by 185.960.325 ordinary shares with a nominal value of EUR 9,78 per share.
As at June 30, 2019 and December 31, 2018 the Parent is 100% held by TIM S.p.A.

Note 13 – Financial liabilities (non-current and current)

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

(million euros)	30/06/2019	31/12/2018
Non-current financial liabilities	**3.717**	**2.205**
Financial payables (medium/long-term):	**1.587**	**1.388**
Bonds	1.241	1.012
Amounts due to banks	183	217
Other financial payables	163	159
Finance lease liabilities (medium/long-term)	**1.480**	**290**
Other financial liabilities (medium/long-term):	**650**	**527**
Non-hedging derivatives	650	527
Current financial liabilities	**1.110**	**1.050**
Financial payables (short-term):	**916**	**991**
Bonds	40	74
Amounts due to banks	852	870
Other financial payables	24	47
Finance lease liabilities (short-term)	**172**	**42**
Other financial liabilities (short-term):	**22**	**17**
Non-hedging derivatives	22	17
Total financial liabilities (gross financial debt)	**4.827**	**3.255**

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

(millions of euros)	30/06/2019	31/12/2018
Up to 2,5%	514	616
From 2,5% to 5%	331	277
From 5% to 7,5%	412	162
From 7,5% to 10%	1.203	1.194
Over 10%	1.649	385
Accruals/deferrals, MTM and derivatives	718	621
Total	**4.827**	**3.255**

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

(millions of euros)	30/06/2019	31/12/2018
Up to 2,5%	677	748
From 2,5% to 5%	245	182
From 5% to 7,5%	335	125
From 7,5% to 10%	1.114	1.194
Over 10%	1.738	385
Accruals/deferrals, MTM and derivatives	718	621
Total	**4.827**	**3.255**

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Details of the maturities of financial liabilities – at nominal repayment amount as at June 30, 2019

	maturing by 30/06 of the year						
(millions of euros)	2020	2021	2022	2023	2024	After 2024	Total
Bonds	-	229	-	-	-	1.015	1.244
Loans and other financial liabilities	37	19	-	164	24	225	469
Finance lease liabilities	-	-	2	-	193	1.454	1.649
Total	**37**	**248**	**2**	**164**	**217**	**2.694**	**3.362**
Current financial liabilities	748	-	-	-	-	-	748
Total	**785**	**248**	**2**	**164**	**217**	**2.694**	**4.110**

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 June 30, 2019:

Currency	Amount (millions)	Nominal repayment amount at 30/06/19 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 30/06/19 (%)	Market value at 30/06/19 (millions of euros)
Bonds issued by Telecom Italia Finance and guaranteed by TIM S.p.A.								
Euro	1.015	1.015	7,750%	24/01/2003	24/01/2033	109,646[*]	136,991	1.390
Bonds issued by TIM S.A. and guaranteed by TIM Participaçoes S.A.								
BRL	1.000	229	104,1%CDI	25/01/2019	15/07/2020	100	100	229
Total								**1.619**

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

The following table lists the changes in bonds during the first half of 2019:

New issue

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

As at June 30, 2019 **Other financial payables (medium/long-term)** amounted to 163 million euros (159 million euros at December 31, 2018). They included 163 million euros of Telecom Italia Finance loan of 20.000 million Japanese yen expiring in 2029.

Finance lease liabilities (medium/long-term) totaled 1.480 million euros at June 30, 2019 (290 million euros at December 31, 2018). Starting from January 1, 2019, the new accounting standard IFRS 16 was introduced (for more details, see the Note "Accounting policies"), whose application led to the recognition of a higher debt for financial leases of 1.290 million of euros at June 30, 2019 out of a total of 1.651 million euros. The difference (361 million euros) essentially refers to property leases accounted for according to the financial method established by IAS 17.

Non-hedging derivatives relating to items classified as current and non-current financial liabilities totaled 672 million euros (544 million euros at December 31, 2018). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note "Derivatives").

Short-term amounts due to banks totaled 852 million euros (870 million euros at December 31, 2018) and included repurchase agreements on government and corporate bonds for 490 million euros maturing by August 2019.

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

Note 14 – Net financial debt

The following table shows the net financial debt at June 30, 2019 and December 31, 2018, calculated in accordance with the criteria indicated in the "Recommendations for the Consistent Implementation of the European Commission Regulation on Prospectuses", issued on February 10, 2005 by the European Securities & Markets Authority (ESMA).

(millions of euros)	30/06/2019	31/12/2018
Non-current financial liabilities	**3.717**	**2.205**
Current financial liabilities	**1.110**	**1.050**
Total gross financial debt	**4.827**	**3.255**
Non-current financial assets	**-36**	**-38**
Non-current financial receivables for lease contract	-35	-37
Non-current hedging derivatives	-1	-1
Current financial assets	**-3.591**	**-3.797**
Securities other than investments	-746	-863
Financial receivables and other current financial assets	-1.456	-1.538
Cash and cash equivalents	-1.389	-1.396
Net financial debt as per ESMA	**1.200**	**- 580**
Non-current financial assets	**-2.426**	**-2.292**
Other Securities other than investments	-	-
Other financial receivables and other non-current financial assets	-2.426	-2.292
Net financial debt [*]	**-1.226**	**-2.872**

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

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

(million euros)		Cash movements		Non-cash movements			
	31/12/2018	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	30/06/2019
Financial payables (medium/long-term):	**1.621**	**230**	**- 80**	**3**	**-**	**- 20**	**1.754**
Bonds	1.085	230	-	-	-	-34	1.281
Amounts due to banks	375	-	-80	-1	-	14	308
Other financial payables	161	-	-	4	-	-	165
of which short-term portion	*233*	*-*	*-80*	*-*	*-*	*13*	*166*
Finance lease liabilities (medium/long-term):	**333**	**165**	**-81**	**1**	**-**	**1.234**	**1.652**
of which short-term portion	*41*	*-*	*-81*	*-*	*-*	*210*	*170*
Other financial liabilities (medium/long-term):	**545**	**-**	**-**	**1**	**122**	**5**	**673**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	-	-	-	-	-	-	-
Non-hedging derivatives	545	-	-	1	122	5	673
of which short-term portion	*17*	*-*	*-*	*-*	*-*	*5*	*-*
Financial payables (short-term):	**756**	**2.555**	**-2.563**	**-**	**-**	**-**	**748**
Amounts due to banks	711	2.578	-2.563	-	-	1	727
Other financial payables	45	-23	-	-	-	-	22
Total financial liabilities (gross financial debt)	**3.255**	**2.950**	**-2.724**	**5**	**122**	**1.219**	**4.827**
Positive hedging derivatives (current and non-current)	1	-	-	-	-	-	1
Positive non-hedging derivatives (current and non-current)	614	-	-5	-1	128	4	740
Total	**3.870**	**2.950**	**-2.729**	**4**	**250**	**1.223**	**5.568**

Note 15 – Derivatives

The hedge accounting continues to be applied according to the requirements of IAS 39, instead of the requirements of IFRS 9, as allowed by the standard.
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 June 30, 2019 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), and currency forwards to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

In carrying out its role of providing financial assistance to TIM Group companies, Telecom Italia Finance aggregates all the exposure with some banking counterparties in just one entity. As a consequence, the Group has derivative contracts signed with banks and analogous intercompany derivative contracts with other TIM Group companies for a notional amount of 3.019 million euros (3.014 at December 31, 2018).

The balance of asset and liability measurements of these contracts is equal to zero.

The following tables show the derivative financial instruments of the Group at June 30, 2019 and at December 31, 2018, by type:

Type (millions of euros)	Hedged risk	Notional amount at 30/06/2019	Notional amount at 31/12/2018	Spot Mark-to-Market (Clean Price) at 30/06/2019	Spot Mark-to-Market (Clean Price) at 31/12/2018
Cross Currency and Interest Rate Swaps [*]	Interest rate risk and currency exchange rate risk	139	139	1	1
Total Cash Flow Hedge Derivatives [**]		**139**	**139**	**1**	**1**
Total Non-Hedge Accounting Derivatives [***]		**3.316**	**3.397**	**66**	**68**
Total Telecom Italia Finance Group Derivatives		**3.455**	**3.536**	**67**	**69**

[*] For these instruments 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.

Note 16 – Supplementary disclosures on financial instruments

Measurement at fair value

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

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

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

The tables below provide additional information on the financial instruments, including the hierarchy level for each class of financial asset/liability measured at fair value at June 30, 2019.
The assets and liabilities at June 30, 2019 are presented based on the categories established by IFRS 9.

Key for IFRS 9 categories

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

Classification and fair value hierarchy of financial instruments measured at fair value as at June 30, 2019:

				Levels of hierarchy	
(millions of euros)	IFRS 9 Categories	Note	Value at 30/06/2019	Level1	Level2
ASSETS					
Non-current assets					
Other investments	FVTOCI	[8]	61	61	
Securities, financial receivables and other non-current financial assets:					
Hedging derivatives	HD[*]	[9]	1	-	1
Non-hedging derivatives	FVTPL	[9]	712	-	712
(a)			**713**	**0**	**713**
Current assets					
Securities other than investments, measured at:					
Fair value through other comprehensive income	FVTOCI	[9]	626	626	
Fair value through profit or loss	FVTPL	[9]	120	120	
Financial receivables and other current financial assets:					
Non-hedging derivatives	FVTPL	[9]	28		28
(b)			**774**	**746**	**28**
Total (a+b)			**1.486**	**746**	**741**
LIABILITIES					
Non-current liabilities					
Non-hedging derivatives	FVTPL	[13]	650		650
(c)			**650**	**-**	**650**
Current liabilities					
Non-hedging derivatives	FVTPL	[13]	22		22
(d)			**22**	**-**	**22**
Total (c+d)			**672**	**-**	**672**

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

Carrying amount and fair value of financial instruments not measured at fair value as at June 30, 2019:

(millions of euros)	IFRS 9 Categories	Note	Value at 30/06/2019	Fair Value at 30/06/2019	Levels of hierarchy Level1	Level3
ASSETS						
Non-current assets						
Other financial receivables	AC	[9]	1.714	1.714	-	1.714
Miscellaneous receivables	AC	[10]	306	306	-	306
Financial receivables for lease contracts	n/a	[9]	35	35	-	35
(a)			**2.055**	**2.055**	**-**	**2.055**
Current assets						
Other short-term financial receivables	AC	[9]	1.427	1.427	-	1.427
Cash and cash equivalents	AC	[9]	1.389	1.389	-	1.389
Trade and miscellaneous receivables	AC	[11]	717	717	-	717
(b)			**3.533**	**3.533**	**-**	**3.533**
Total (a+b)			**5.588**	**5.588**	**-**	**5.588**
LIABILITIES						
Non-current liabilities						
Financial payables	AC	[13]	1.587	1.966	1.390	576
Finance lease liabilities	n/a	[13]	1.480	1.480	-	1.480
(c)			**3.067**	**3.446**	**1.390**	**2.056**
Current liabilities						
Financial payables	AC	[13]	916	916	-	916
Trade and miscellaneous payables and other current liabilities	AC	[19]	866	866	-	866
Finance lease liabilities	n/a	[13]	172	172	-	172
(d)			**1.954**	**1.954**	**-**	**1.954**
Total (c+d)			**5.021**	**5.400**	**1.390**	**4.010**

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

(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2018	Fair Value at 31/12/2018	Levels of hierarchy Level1	Level3
ASSETS						
Non-current assets						
Other financial receivables	AC	[9]	1.707	1.707	-	1.707
Miscellaneous receivables	AC	[10]	314	314	-	314
Financial receivables for lease contracts	n/a	[9]	36	36	-	36
(a)			**2.057**	**2.057**	**-**	**2.057**
Current assets						
Other short-term financial receivables	AC	[9]	1.508	1.508	-	1.508
Cash and cash equivalents	AC	[9]	1.396	1.396	-	1.396
Trade and miscellaneous receivables	AC	[11]	671	671	-	671
(b)			**3.575**	**3.575**	**-**	**3.575**
Total (a+b)			**5.632**	**5.632**	**-**	**5.632**
LIABILITIES						
Non-current liabilities						
Financial payables	AC	[13]	1.388	1.649	1.273	376
Finance lease liabilities	n/a	[13]	290	290	-	290
(c)			**1.678**	**1.939**	**1.273**	**666**
Current liabilities						
Financial payables	AC	[13]	991	991	-	991
Trade and miscellaneous payables and other current liabilities	AC	[19]	1.250	1.250	-	1.250
Finance lease liabilities	n/a	[13]	42	42	-	42
(d)			**2.283**	**2.283**	**-**	**2.283**
Total (c+d)			**3.961**	**4.222**	**1.273**	**2.949**

Note 17 – Provisions

(millions of euros)	31/12/2018	Increase	Taken to income	Used directly	Exchange differences and other changes	30/06/2019
Provision for taxation and tax risks	**65**	22	-	-5	22	**104**
Provision for restoration costs	**6**	-	-	-	1	**7**
Provision for legal disputes	**130**	67	-	-51	2	**148**
Other provisions	**2**	-	-	-	-	**2**
Total	**203**	**89**	**-**	**-56**	**25**	**261**
of which:						
non-current portion	**189**	88	-	-52	25	**250**
current portion	**14**	1	-	-4	-	**11**

Provision for taxation and tax risks. The figure at June 30, 2019 are mainly related to companies in the Brazil Business Unit (104 million euros *vs.* 61 million euros at December 31, 2018).

Provision for legal disputes includes the provision for litigation with employees, social security entities, regulatory authorities and other counterparties and refers to the Brazil Business Unit.

Note 18 – Miscellaneous payables and other non-current liabilities

(million euros)	30/06/2019	31/12/2018
Deferred revenues from customer contracts (Contract liabilities)	1	1
Other deferred income	198	203
Income tax payables	43	42
Other	13	13
Total	**255**	**259**

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

Note 19 – Trade and miscellaneous payables and other current liabilities

(millions of euros)	30/06/2019	31/12/2018
Trade payables	**738**	**1.072**
Payables to suppliers	706	1.036
Payables to other telecommunication operators	32	36
Tax payables	**115**	**139**
Miscellaneous payables	**82**	**99**
Payables for employee compensation	39	34
Payables to social security agencies	15	12
Payables for TLC operating fee	4	4
Dividends approved, but not yet paid to shareholders	13	35
Provisions for risks and charges for the current portion expected to be settled within 1 year	11	14
Other current liabilities	**75**	**92**
Deferred revenues from customer contracts (Contract liabilities)	5	8
Customer-related items	49	64
Other deferred income	21	20
Total	**1.010**	**1.402**

Trade payables amounting to 738 million euros as at June 30, 2019 (1.072 million euros at December 31, 2018) are referred to the Brazil Business Unit.

Tax payables amounting to 115 million euros as at June 30, 2019 are referred to the Brazil Business Unit (139 million euros at December 31, 2018).

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

Note 20 – Disputes and pending legal actions, other information, commitments and guarantees

SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes

As of 30 June 2019, the companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totaling around 16,8 billion reais (16,5 billion reais as of 31 December 2018). The main types of litigation are listed below, classified according to the tax to which they refer.

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

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

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

- challenges regarding offsetting against previous tax losses;
- further challenges regarding the tax deductibility of the amortisation 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 the taxes payable and group company credit positions.

Overall, the risk for these cases, considered to be possible, amounts to 4,1 billion reais (4 billion reais at December 31, 2018).

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

- challenges concerning the reduction of the tax base due to discounts granted to customers, as well as challenges regarding the use of tax credits declared by group companies, with respect to the return of loaned telephone handsets, and following the detection of contract frauds to the detriment of the companies;
- subjection of some fees owed to group companies and classified by them as fees for services other than telecommunications to ICMS;

- challenges over the use of the "PRO-DF" tax benefit originally granted by some States, and subsequently declared unconstitutional (the challenge refers to the actual credit due to ICMS, declared by the TIM Cellular on the basis of the aforementioned tax benefits);
- challenges relating to the use of ICMS credits claimed by Group Companies as a result of the acquisition of tangible assets, and in relation to the supply of electricity to the Companies, as well as in application of the provisions on acting as a withholding agent;
- fines imposed on group companies for irregularities in tax return compliance.

In February 2018 the State of São Paulo notified two tax assessments regarding ICMS to TIM Celular, for a total amount of 679 million reais (at the date of the assessment, including fines and interest). The first assessment (344 million reais) regarded a challenge of ICMS credits in relation to acting as a withholding agent, applicable when equipment is bought and distributed in different States. The second assessment (335 million reais) challenged ICMS credits deriving from the "special credit" recognised by the Company to its pre-paid customers, against subsequent top-ups.
In June 2018 the State of São Paulo notified two further tax assessments to TIM Celular, again relating to ICMS, for a total amount of 369 million reais (at the date of the assessment, including fines and interest). This assessment too relates to ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers against subsequent top-ups, as well as to the fines imposed for ICMS breaches. For a minor part of the claim, the company decided to authorize payment of the amount requested, instead of starting legal proceedings, benefiting from a discount on the fine. The dispute thus continues for the remaining amount, 296 million reais.
Overall, the risk for these cases, considered to be possible, amounts to 9 billion reais (8,9 billion reais at December 31, 2018).

Brazil – Municipal taxes
Among disputes classified with a "possible" degree of risk, there are some relating to municipal taxes for a total amounting to around 0,7 billion reais (around 0,7 billion reais at December 31, 2018).

Brazil – FUST and FUNTTEL
The main challenges about contributions to the regulatory body (Anatel), and in particular in terms of FUST and FUNTTEL, concern whether or not interconnection revenues should be subject to these contributions.
Overall, the risk for these cases, considered to be possible, amounts to 3 billion reais (2,9 billion reais at December 31, 2018).

Brazil – Opportunity Arbitration

It should be noted that for these disputes on the basis of the information available at the closing date of this Interim Management Report and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of the payments due, if any. Nonetheless, no significant facts have emerged for these disputes with respect to the information published in the 2018 Annual Report.

Brazil – Contingent assets related to exclusion of ICMS from the PIS/COFINS tax base

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

In the first half of 2019, following a final decision and a definition of the amounts, the Company recognized an additional total credit of 2.876 million reais, of which 1.720 million of reais for tax and 1.156 million of reais for legal revaluation (amounts relating to the then TIM Celular), as detailed in the following table:

	1st Half 2019 (millions of euros)	1st Half 2019 (millions of reais)
ICMS indirect tax recovery:	662	2.876
Tax (principal)	396	1.720
Legal revaluation (Monetary Adjustment)	266	1.156
Deferred Taxes	-225	-978
Net impact	**437**	**1.898**

The use of the recognized tax credits is expected starting from the second half of 2020 with a assumed horizon of three years, will be subject to taxation and therefore deferred direct taxes with a horizon of about four years were also recognized.
Finally, the latest proceedings relating to TIM S.A. saw the second degree judicial body adopt a favourable decision for the company, and conforming to the guidelines adopted by the Supreme Federal Court.
The company is carrying out a detailed analysis on the remaining amounts receivable, and believes – according to a first estimate - that it can recognize in the future, a total amount for a receivable in its favor for about 190 million reais (amount relating to TIM S.A.), of which 90 million by way of tax and 100 million as a legal revaluation.

COMMITMENTS AND GUARANTEES

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

(millions of euros)	30/06/2019	31/12/2018
Guarantee on bonds issued by the Group	1.178	1.174
Guarantee on derivatives financial instruments	231	178
Total	**1.409**	**1.352**

There are also surety bonds on the telecommunication services in Brazil for 195 million euros.

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

ASSETS PLEDGED TO GUARANTEE FINANCIAL LIABILITIES

The contracts for low-rate loans granted by the Brazilian Development Bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular, now merged into TIM S.A., for a total equivalent amount of 213 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

Note 21 – Revenues

(millions of euros)	1st Half 2019	1st Half 2018
Equipment sales	84	79
Services	1.862	1.922
Total	**1.946**	**2.001**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 75 million euros in 2019 (103 million euros in the same period 2018, -27,2% 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 22 – Finance income and expenses

FINANCE INCOME

(millions of euros)	1st Half 2019	1st Half 2018
Interest income and other finance income	**164**	**179**
Income from financial receivables, recorded in non-current assets	44	42
Income from securities other than investments, recorded in non-current assets	1	2
Income from securities other than investments, recorded in current assets	3	2
Income other than the above:		
Interest income	18	27
Exchange gains	20	19
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	1
Income from non-hedging derivatives	70	83
Miscellaneous finance income	7	3
Positive fair value adjustments to non-hedging derivatives	**132**	**166**
Positive adjustments and reversal for impairment on financial assets	**4**	**5**
Total	**300**	**350**

FINANCE EXPENSES

(millions of euros)	1st Half 2019	1st Half 2018
Interest expenses and other finance expenses	**309**	**276**
Interest expenses and other costs relating to bonds	2	3
Interest expenses to banks	7	15
Interest expenses to others	157	77
Expenses other than the above:		
Commissions	11	7
Exchange losses	14	35
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	-	-
Charges from non-hedging derivatives	69	81
Miscellaneous finance expenses	49	58
Negative fair value adjustments to non-hedging derivatives	**132**	**155**
Negative adjustments for impairment on financial assets	**6**	**9**
Total	**447**	**440**

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

(millions of euros)	1st Half 2019	1st Half 2018
Exchange gains	20	19
Exchange losses	-14	-35
Net exchange gains and losses	**6**	**-16**
Positive Reversal of the Reserve for cash flow hedge derivatives	1	1
Negative Reversal of the Reserve for cash flow hedge derivatives	-	-
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**1**	**167**
Income from non-hedging derivatives	70	83
Charges from non-hedging derivatives	-69	-81
Net result from non-hedging derivatives	**1**	**-76**
Net result from derivatives	**8**	**-81**
Positive fair value to non-hedging derivatives	132	166
Negative fair value adjustments to non-hedging derivatives	-132	-155
Net fair value adjustments to non-hedging derivatives	**0**	**11**
Positive adjustments and reversal for impairment on financial assets	4	5
Negative adjustments for impairment on financial assets	-6	-9
Net impairment on financial assets	**-2**	**-4**

Note 23 – Segment reporting

SEGMENT REPORTING

Segment reporting is based on the following operating segments:

- Telecommunications (Brazil)
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(millions of euros)	Brazil		Other Operations		Consolidated Total	
	1st Half 2019	1st Half 2018	1st Half 2019	1st Half 2018	1st Half 2019	1st Half 2018
Third-party revenues	1.946	2.001	-	-	1.946	2.001
Revenues by operating segment	**1.946**	**2.001**	**-**	**-**	**1.946**	**2.001**
Other income	671	12	-	-	671	12
Total operating revenues and other income	**2.617**	**2.013**	**-**	**-**	**2.617**	**2.013**
Acquisition of goods and services	-760	-971	-1	-1	-761	-972
Employee benefits expenses	-170	-154	-	-1	-170	-155
Other operating expenses	-276	-243	-2	-2	-278	-245
of which: write-downs and expenses in connection with credit management and provision charges	*-131*	*-91*	-	-	*-131*	*-91*
Change in inventories	7	12	-	-	7	12
Internally generated assets	48	48	-	-	48	48
EBITDA	**1.466**	**705**	**-3**	**-4**	**1.463**	**701**
Depreciation and amortization	-609	-459	-	-	-609	-459
Gains/(losses) on disposals of non-current assets	5	6	-	-	5	6
Impairment reversals (losses) on non-current assets	-	-	-	-	-	-
EBIT	**862**	**252**	**-3**	**-4**	**859**	**248**
Other income (expenses) from investments					-	-
Finance income					300	350
Finance expenses					-447	-440
Profit (loss) before tax					**712**	**158**
Income tax expense					-224	-33
Profit (loss) for the period					**488**	**125**
Attributable to:						
Owners of the Parent					326	77
Non-controlling interests					162	48

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	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Non-current operating assets	7.907	6.037	1	1	7.908	6.038
Current operating assets	901	769	-	43	901	812
Total operating assets	**8.808**	**6.806**	**1**	**44**	**8.809**	**6.850**
Unallocated assets					6.336	6.504
Total Assets					**15.145**	**13.354**
Total operating liabilities	**1.510**	**1.841**	**5**	**10**	**1.515**	**1.851**
Unallocated assets					4.893	3.297
Equity					8.737	8.206
Total Equity and Liabilities					**15.145**	**13.354**

Note 24 – Related party transactions

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

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

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

Separate Consolidated Income Statement line items 1st Half 2019

(millions of 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	**1.946**	-	1	-	-	1	0,1
Acquisition of goods and services	**761**	-	50	-	-	50	6,6
Employee benefits expenses	**170**	-	-	2	2	4	2,4
Finance income	**300**	-	136	-	-	136	45,3
Finance expenses	**447**	-	113	-	-	113	25,3

Separate Consolidated Income Statement line items 1st Half 2018

(millions of 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	**2.001**	-	1	-	-	1	0,0
Acquisition of goods and services	**2.013**	-	54	-	-	54	2,7
Employee benefits expenses	**154**	-	-	3	1	4	2,6
Finance income	**350**	-	199	-	-	199	56,9
Finance expenses	**440**	-	78	-	-	78	17,7

The effects on the individual line items of the consolidated statements of financial position at June 30, 2019 and December 31, 2018 are as follows:

Consolidated Statement of Financial Position line items at 30/06/2019

(millions of euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-1.226**	**-**	**-3.768**	**-**	**-3.768**	**0,0**
Non-current financial assets	**-2.462**		**-1.998**	**-**	**-1.998**	**81,2**
Current financial assets	**-3.591**	**-**	**-2.227**	**-**	**-2.227**	**62,0**
Securities other than investments (current assets)	**-746**	-	-	-	0	0,0
Financial receivables and other current financial assets	**-1.456**	-	-1.437	-	-1.437	98,7
Cash and cash equivalents	**-1.389**	-	-790	-	-790	56,9
Non-current financial liabilities	**3.717**	**-**	**423**	**-**	**423**	**11,4**
Current financial liabilities	**1.110**	**-**	**34**	**-**	**34**	**3,1**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**1.009**	-	20	1	21	2,1
Trade and miscellaneous payables and other current liabilities	**1.010**	-	30	-	30	3,0

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

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

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(millions of euros)	1st Half 2019	1st Half 2018	Type of contract
Other pension funds	2	3	Contributions to pension funds
Total employee benefits expenses	**1**	**3**	

Consolidated Statement of Financial Position line items

(millions of euros)	1st Half 2019	31/12/2018	Type of contract
Other pension funds	1	-	Payables for contributions to pension funds
Total trade and miscellaneous payables and other current liabilities	**1**	**-**	

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in first half 2019 amounted to 2 million euros (1 million euros in the same period of 2018).

Note 25 – Equity compensation plans

The equity compensation plans in force at June 30, 2019 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.
A summary is provided below of the plans in place at June 30, 2019.

DESCRIPTION OF STOCK OPTION PLANS

TIM Participações S.A. Stock Option Plan

For a description of the Tim Participações S.A. 2011-2013 Stock Option Plan already in place at December 31, 2018, see the consolidated financial statements of the Group at that date.

• 2014-2016 Plan
On April 10, 2014, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. Exercise of the options is not subject to the achievement of specific performance targets, but the exercise price is adjusted upwards or downwards according to the performance of the Tim Participações S.A. shares in a ranking of Total Shareholder Return, in which companies in the Telecommunications, Information Technology and Media industry are compared during each year of validity of the plan.
The vesting period is 3 years (a third per year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

- Year 2014
  On September 29, 2014, the grantees of the options were granted the right to purchase a total of 1.687.686 shares. As at June 30, 2019, 100% of the options were considered as vested. Of the total granted, 1.249.465 shares were canceled due to the participants leaving the company. Out of the remaining 438.221 options, 27.424 have been exercised and 410.797 are still to be 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 at June 30, 2019, 100% of the options were considered as vested. Of the total granted, 1.646.080 shares were canceled due to the participants leaving the company. Out of the remaining 1.709.149 options, 1.479.291 have been exercised and 229.858 are still to be exercised.

- Year 2016
  On n November 8, 2016, the grantees of the options were granted the right to purchase a total of 3.922.204 shares. As at June 30, 2019, 2/3% of the options were considered as vested. Of the total granted, 1.727.423 shares were canceled due to the participants leaving the company. Out of the remaining 2.194.781 options, 1.361.456 have been exercised and 833.325 are still to be exercised.

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

- Year 2018
  On April 20, 2018, the grantees were granted the right to obtain a total of 849.932 shares. Of the total granted, 425.065 shares were canceled due to the participants leaving the company. The remaining balance is 424.867 shares.
  On June 30, 2019, the first grant period concluded and - in line with the performance results approved on June 29, 2019 – 115.949 shares were granted, plus the amount corresponding to the amount of dividends distributed during the accrual period, according to the defined rules.

Note 26 – Other information

EXCHANGE RATE USED TO TRANSLATE THE FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

	Period-end exchange rates (statements of financial position)		Average exchange rates for the period (income statements and statements of cash flows)	
Local currency against 1 EUR	30/06/2019	31/12/2018	1st Half 2019	1st Half 2018
ARS (Argentine peso)	48,56780	43,15930	46,79486	25,98615
BRL (Brazilian real)	4,36104	4,43664	4,34394	4,14011
CHF (Swiss franc)	1,11050	1,12690	1,12968	1,17008
GBP (Pound sterling)	0,89655	0,89453	0,87357	0,87975
JPY (Japan Yen)	122,60000	125,85000	124,32519	131,62885
USD (U.S. dollar)	1,13800	1,14500	1,12977	1,21058

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:

(millions of euros)	1st Half 2019	1st Half 2018
Development costs capitalized	13	13
Total research and development costs (expensed and capitalized)	**13**	**13**

Note 27 – Events subsequent to June 30, 2019

TIM AND VIVO (TELEFÔNICA BRASIL) SIGN MEMORANDUM OF UNDERSTANDING FOR INFRASTRUCTURE SHARING AND OTHER PROJECTS
TIM S.A. and Telefônica Brasil S.A. signed a Memorandum of Understanding ("MOU") on July 23, 2019 with the aim of initiating engagement concerning:

- 2G network sharing in the so-called Single Grid model;
- reaching new agreements for sharing the 4G network infrastructure in the 700 MHz band, in particular for cities with less than 30.000 inhabitants, which could later be extended to larger cities;
- other network sharing opportunities involving other frequencies and technologies; and
- other opportunities in terms of efficiency and cost reduction in relation to network operation and maintenance.

The Companies underlined the benefits that could derive from this engagement regarding the improvement of the quality of the service for the customers of both operators, beyond the efficiency in the allocation of the investments and operating costs. Of no less importance was the sharing of initiatives in line with the challenges

of sustainability (conscious use of energy), urban planning (optimization of the use of public spaces), which have been successful in several countries, including Brazil.
The parties confirm that they will maintain their commercial independence and customer management, regardless of any agreement that may arise from this engagement. The Memorandum does not create a joint venture or a commercial partnership or a formal business relationship, nor does it imply an exclusive relationship between the parties.

Note 28 – List of companies of the Telecom Italia Finance Group

Company name	Head office	Currency	Share Capital	% Ownership	% of voting	Held by
PARENT COMPANY						
Telecom Italia Finance	Luxembourg	EUR	1.818.691.979			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
Brazil Business Unit						
• TIM Brasil Serviços & Partecipações S.A.	Rio de Janeiro	BRL	7.169.029.859	99,9999 0,0001		Telecom Italia Finance TIM S.p.A.
• TIM Participações S.A.	Rio de Janeiro	BRL	9.913.414.422	66,5819 0,0324	66,6035	TIM Brasil Serviços & Partecipações S.A. TIM Participações S.A.
• TIM S.A.	Rio de Janeiro	BRL	13.476.171.765	100,0000		TIM Participações S.A.
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
Movenda S.p.A.	Roma	EUR	133.333	24,9998		Telecom Italia Finance
TI Audit Compliance Latam S.A. (in liquidation)	Rio de Janeiro	BRL	1.500.000	69,9996 30,0004		TIM S.p.A. TIM Brasil Serviços & Partecipações S.A.
OTHER RELEVANT SHAREHOLDERS						
TIM S.p.A.	Milano	EUR	11.677.002.855	0,5900		Telecom Italia Finance

Certification of the Consolidated Financial Statements pursuant to Luxembourg Transparency Law

Pursuant to paragraph 4 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 interim financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Biagio Murciano
Managing Director