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ADOPTION OF THE NEW IFRS 16 (LEASES) STANDARD

This section provides an overview of IFRS 16 (Leases) main elements and of the impacts arising from the application of the standard starting from January 1, 2019.

IFRS 16 (Leases) was endorsed by the European Union on October 31, 2017 with the Commission Regulation (EU) 2017/1986.

IFRS 16 has replaced IAS 17 (Leases) and the 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).

As allowed by the new standard, the TIM Group has applied the modified retrospective method with the recognition of the cumulative effect of the standard first-time adoption as an adjustment to the opening balance of equity at the data of the first application, without restating prior comparative periods.

On the basis of the provisions of IFRS 16, lease agreements (that are not service contracts) are accounted by recognizing, in the statement of financial position, a financial liability for an amount corresponding to the present value of the future lease payments and (as counter entry) a Right of Use among the assets. This liability is subsequently adjusted over the lease contract term in order to reflect the payment of interest on the debt and the repayment of the principal; the right of use of the leased asset is amortized over the contract term. The application of IFRS 16 determines lower operating costs and higher amortization/depreciation and financial charges in comparison with IAS 17 which required the recognition of operating costs for non-financial leases; moreover, according to IFRS 16 for the lessees the distinction between financial and operating leases doesn't exist any longer.

As of January 1, 2019 (transition date), the TIM Group has applied a modified retrospective method by recognizing, for leases previously classified as operating leases (under IAS 17), a financial liability and a corresponding right of use, measured on the basis of the remaining lease payments at the transition date.

In the TIM Group the agreements that fall within the scope of IFRS 16 mainly refer to:

- land and buildings for office and industrial use,
- infrastructure sites for the mobile network and
- network infrastructure (when not services).

With reference to the options and exemptions provided for by IFRS 16, the TIM Group has adopted the following choices:

- IFRS 16 is not usually applied to intangible assets or to short-term (i.e. less than 12 months) contracts with low unit value;
- rights of use and financial liabilities relating to lease agreements have been classified on specific line items in the statement of financial position;
- any service contract component included in the lease payments have been generally excluded from the IFRS 16 scope;
- contracts with similar characteristics have been assessed using a single discount rate;
- lease agreements previously considered finance leasing pursuant to IAS 17 have retained the previously recognized values, in full continuity with the past.

The adoption of the new standard has not been completed and may be subject to amendments until the issue of 2019 consolidated financial statement of the TIM Group. In particular, certain analyses are still in progress regarding the accounting treatment of certain indirect and unrecoverable taxes in Brazil, which are currently included in the value shown on first-time adoption.

The impacts during transition are not indicative of future developments since the choices of allocating capital might change with resulting economic and financial repercussions on recognition in the financial statements.

IMPACTS ARISING FROM THE ADOPTION OF IFRS 16

Impacts on the consolidated statements of financial position at 1/1/2019 (transition date)

For the TIM Group, adoption of IFRS 16 entailed higher non-current assets due to the recognition of the "Right of Use" as a balancing entry to the higher financial liabilities recognized. In detail, the impacts of the transition on the main line items of the consolidated statements of financial position are shown below.

(millions of euros)	12/31/2018	Riclassification (*)	IFRS 16 impacts (**)	1/1/2019 Restated
Assets				
Non-current assets				
Intangible assets	35,658	(445)	–	35,213
Tangible assets	16,146	(1,923)	–	14,223
Right of use assets	–	2,368	3,503	5,871
Other non-current assets				
Non-current financial receivable arising from lease contracts	54	–	6	60
Miscellaneous receivables and other non-current assets	2,291	–	–	2,291
Deferred tax assets	1,136	–	–	1,136
Current assets				
Trade and miscellaneous receivables and other current assets	4,706	–	(29)	4,677
Current financial receivables arising from lease contracts	70	–	4	74
Total Assets	**65,619**	**–**	**3,484**	**69,103**
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent	19,528	–	–	19,528
Non-controlling interests	2,219	–	–	2,219
Total Equity	**21,747**	**–**	**–**	**21,747**
Non-current financial liabilities for lease contracts	1,740	–	3,021	4,761
Deferred tax liabilities	192	–	–	192
Current liabilities				
Current financial liabilities for lease contracts	208	–	542	750
Trade and miscellaneous payables and other current liabilities	6,901	–	(79)	6,822
Total Equity and Liabilities	**65,619**	**–**	**3,484**	**69,103**

(*) The column includes reclassification of Rights of use on third-party assets (2,368 million euros) of: a) Indefeasible Right of Use – IRU (412 million euros) previously recognised as intangible assets; b) Rights of use on infrastructure in Brazil – "LT Amazonas" (33 million euros) previously recognised as intangible assets; c) assets held under finance leases (1,895 million euros), previously recognised as tangible assets; d) improvements to third-party assets (28 million euros) previously recognised as tangible assets.

(**) The column includes recognition of the rights of use on third-party assets the related financial debt and related items consequent to IFRS 16.

The amount of net Liabilities (Assets) recognized for Leases at January 1, 2019 is the following:

(millions of euros)	
Financial liabilities for lease contracts payable, non-current and current, in effect on December 31, 2018 (2018 financial statements)	1,948
Other financial liabilities recognized for leases at January 1, 2019	3,563
Total financial liabilities at January 1, 2019	**5,511**
Financial assets for lease contracts receivable, non-current and current, in effect on December 31, 2018 (2018 financial statements)	(124)
Other financial asset recognized for leases at January 1, 2019	(10)
Total financial assets at January 1, 2019	**(134)**
Net Liabilities (Assets) for leases at January 1, 2019	**5,377**

Adjusted net financial debt

(millions of euros)

Adjusted net financial debt at December 31, 2018	**25,270**
Other financial liabilities recognized for leases at January 1, 2019	3,563
Other financial asset recognized for leases at January 1, 2019	(10)
Adjusted net financial debt at January 1, 2019	**28,823**

The average discount rate applied to the lease liabilities recognized in the statements of financial position at the initial application date (January 1, 2019) was 5.6%.

Impact on the main separate consolidated income statement line items and on the consolidated statements of financial position of the first half of 2019

The breakdown of the impact of IFRS 16 on key consolidated income statement figures for the first half of 2019 compared with the comparable first half of 2019 is shown below.

(millions of euros)		1st Half 2019 comparable (*) (a)	IFRS 16 impact (b)	1st Half 2019 (a+b)
Operating expenses	(1)	(5,695)	326	(5,369)
EBITDA		**4,065**	**326**	**4,391**
Depreciation of assets held under finance leases	(2)	(93)	(310)	(403)
EBIT		**1,871**	**16**	**1,887**
Interest expenses on lease liabilities	(3)	(80)	(105)	(185)
Profit (loss) before tax from continuing operations		**1,220**	**(88)**	**1,132**
Income tax expense	(4)	(422)	30	(392)
Profit (loss) for the period		**798**	**(58)**	**740**
Attributable to:				
Owners of the Parent		**592**	**(41)**	**551**
Non-controlling interests		206	(17)	189

(*) In the comparable first half of 2019, the signed lease contracts starting from January 1, 2019 are always classified as operating leases for IAS 17 purposes

The different nature, qualification and classification of the expenses, with recognition of the "Amortization of rights of use assets" and of "Financial expense for interest relating to rights of use " instead of "Lease and rental costs - payments for operating leases" according to IAS 17, has determined a positive impact on EBITDA equal to 326 million euros.

Application of IFRS 16 to lease contracts particularly has determined:

(1) reduction of Operating expenses for the different accounting treatment of the rentals relating to the lease contracts of land, building for office and industrial use, infrastructure sites for the mobile telephony network and network infrastructure (when not classifiable as services);

(2) the increase in Amortization of rights of use assets consequent to recognition of higher non-current assets ("Right of Use asset") amortized for the term of the contract;

(3) the increase in Financial expense for interest connected with user rights consequent to the recognition of higher financial liabilities;

(4) the change in Income tax expense that shows the income tax effect of the changes illustrated above.

The impact on the main economic indicators arising from the adoption of IFRS 16 on each operating segments was the following:

(millions of euros)	1st Half 2019				
	Domestic	Brasil	Other Operation	Adjustments and eliminations	Consolidated Total
Revenues	–	–	–	–	–
EBITDA	**180**	**146**	–	–	**326**
EBIT	**17**	**(1)**	–	–	**16**

The breakdown of the impact of IFRS 16 on the main consolidated statements of financial position figures at June 30, 2019 is shown below.

(millions of euros)	6/30/2019 comparable (a)	IFRS 16 impact (b)	6/30/2019 (c=a+b)
Assets			
Non-current assets			
Intangible assets	34,790	–	34,790
Tangible assets	14,089	–	14,089
Right of use assets	2,328	3,475	5,803
Other non-current assets	6,169	8	6,177
Total Non-current assets	**57,376**	**3,483**	**60,859**
Current Assets	**8,285**	**(32)**	**8,253**
Total Assets	**65,661**	**3,451**	**69,112**
Equity and Liabilities			
Equity			
Equity attributable to owners of the Parent	19,983	(34)	19,949
Non-controlling interests	2,400	(15)	2,385
Total Equity	**22,383**	**(49)**	**22,334**
Non-current liabilities	**33,511**	**3,053**	**36,564**
Current liabilities	**9,767**	**447**	**10,214**
Total Liabilities	**43,278**	**3,500**	**46,778**
Total Equity and liabilities	**65,661**	**3,451**	**69,112**

The breakdown of the impact of IFRS 16 on consolidated net financial debt is shown below.

Adjusted Net Financial Debt

(millions of euros)	6/30/2019
Comparable adjusted net financial debt	**24,731**
Additional financial liabilities recognized in application of IFRS 16	3,606
Additional financial assets recognized in application of IFRS 16	(9)
Adjusted net financial debt	**28,328**

TIM GROUP – FINANCIAL HIGHLIGHTS

(millions of euros)		1st Half 2019	1st Half 2019 comparable (a)	1st Half 2018 (b)	% Change (a-b)	organic excluding non-recurring
Revenues		**8.994**	**8.994**	**9.411**	(4,4)	(3,4)
EBITDA	(1)	**4.391**	**4.065**	**3.733**	8,9	(2,3)
EBITDA Margin		*48,8%*	*45,2%*	*39,7%*	*5.5pp*	
Organic EBITDA Margin excluding non-recurring		*45,1%*	*41,4%*	*41,0%*		*0,4pp*
EBIT	(1)	**1.887**	**1.871**	**1.614**	15,9	(10,7)
EBIT Margin		*21,0%*	*20,8%*	*17,2%*	*3.6pp*	
Organic EBIT Margin excluding non-recurring		*17,3%*	*17,1%*	*18,5%*		*(1.4)pp*
Profit (loss) for the period attributable to owners of the Parent		**551**	**592**	**532**	11,3	
Spectrum & capital expenditures		**1.481**	**1.481**	**1.597**	(7,3)	
		30.6.2019	**30.6.2019 comparable (a)**	**31.12.2018 (b)**	**Change Amount (a-b)**	
Adjusted net financial debt	(1)	**28.328**	**24.731**	**25.270**	(539)	

(millions of euros)		2nd Quarter 2019	2nd Quarter 2019 comparable (a)	2nd Quarter 2018 (b)	% Change (a-b)	organic excluding non-recurring
Revenues		**4.523**	**4.523**	**4.726**	(4,3)	(3,9)
EBITDA	(1)	**2.445**	**2.273**	**1.940**	17,2	(2,6)
EBITDA Margin		*54,1%*	*50,3%*	*41,0%*	*9.3pp*	
Organic EBITDA Margin excluding non-recurring		*46,0%*	*42,2%*	*41,6%*		*0.6pp*
EBIT	(1)	**1.204**	**1.186**	**874**	35,7	(8,5)
EBIT Margin		*26,6%*	*26,2%*	*18,5%*	*7.7pp*	
Organic EBIT Margin excluding non-recurring		*18,5%*	*18,1%*	*19,1%*		*(1.0)pp*
Profit (loss) for the period attributable to owners of the Parent		**386**	**399**	**333**	19,8	

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

TIM GROUP – RECLASSIFIED STATEMENTS

The reclassified Separate Consolidated Income Statements, Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position and the Consolidated Statements of Cash Flows, as well as the Consolidated Net Financial Debt of the TIM Group, herewith presented, are the same as those included in the Interim Management Report of the Half-year Financial Report at June 30, 2019 and are unaudited.
Such statements, as well as the Consolidated Net Financial Debt, are however consistent with those included in the TIM Group Half-year Condensed Consolidated Financial Statements at June 30, 2019.
The accounting policies and consolidation principles 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 adopted in the Annual Consolidated Financial Statements at December 31, 2018, to which reference can be made, except for the new accounting principles applied starting from January 1st, 2019 whose effects are shown in the following chapter "Adoption of the new IFRS 16 (Leases) standard".
To enable the comparison of the economic and financial performance for first half of 2019, this press release shows "comparable" statement of financial position figures and "comparable" income statement figures, prepared in accordance with the previous accounting standards applied (IAS 17 and relative Interpretations).
As described in the 2018 consolidated financial statements of the TIM Group, the improvements - also on the supporting IT systems - relating to the process of implementing the new accounting standards adopted in 2018, together with the high number of new commercial offers, involved recalculating the time distribution of the revenues during the first and second quarters of 2018 for some specific fixed-line and mobile contract types. Therefore, the financial figures of the first and second quarters of 2018, as well as those for the first half of 2018 have been recalculated. These figures are not audited. The figures provided below are to be considered "reported" unless otherwise indicated.
Furthermore, please note that the limited review work by our independent auditors on the TIM Group Half-year Condensed Consolidated Financial Statements at June 30, 2019 has not yet been completed.

SEPARATE CONSOLIDATED INCOME STATEMENTS OF THE TIM GROUP

(millions of euros)	1st Half 2019	1st Half 2019 comparable (a)	1st Half 2018 (b)	Change (a-b) amount	%
Revenues	**8,994**	**8,994**	**9,411**	**(417)**	**(4.4)**
Other income	766	766	144	622	–
Total operating revenues and other income	**9,760**	**9,760**	**9,555**	**205**	**2.1**
Acquisition of goods and services	(3,198)	(3,524)	(3,980)	456	11.5
Employee benefits expenses	(1,502)	(1,502)	(1,526)	24	1.6
Other operating expenses	(871)	(871)	(661)	(210)	(31.8)
Change in inventories	(74)	(74)	35	(109)	–
Internally generated assets	276	276	310	(34)	(11.0)
Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**4,391**	**4,065**	**3,733**	**332**	**8.9**
Depreciation and amortization	(2,496)	(2,186)	(2,122)	(64)	(3.0)
Gains (losses) on disposals of non-current assets	(8)	(8)	3	(11)	–
Impairment reversals (losses) on non-current assets	–	–	–	–	–
Operating profit (loss) (EBIT)	**1,887**	**1,871**	**1,614**	**257**	**15.9**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(3)	(3)	(2)	(1)	–
Other income (expenses) from investments	2	2	10	(8)	–
Finance income	580	579	551	28	5.1
Finance expenses	(1,334)	(1,229)	(1,269)	40	3.2
Profit (loss) before tax from continuing operations	**1,132**	**1,220**	**904**	**316**	**35.0**
Income tax expense	(392)	(422)	(297)	(125)	(42.1)
Profit (loss) from continuing operations	**740**	**798**	**607**	**191**	**31.5**
Profit (loss) from Discontinued operations/Non-current assets held for sale	**–**	**–**	**–**	**–**	**–**
Profit (loss) for the period	**740**	**798**	**607**	**191**	**31.5**
Attributable to:					
Owners of the Parent	**551**	**592**	**532**	**60**	**11.3**
Non-controlling interests	189	206	75	131	–

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE TIM GROUP

In accordance with IAS 1 (Presentation of Financial Statements) here below are presented the Consolidated Statements of Comprehensive Income, including the Profit (loss) for the period, as shown in the Separate Consolidated Income Statements, and all non-owner changes in equity.

(millions of euros)		1st Half 2019	1st Half 2018
Profit (loss) for the period	**(a)**	**740**	**607**
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		3	(3)
Income tax effect		–	–
	(b)	**3**	**(3)**
Remeasurements of employee defined benefit plans (IAS19):			
Actuarial gains (losses)		(70)	7
Income tax effect		17	(3)
	(c)	**(53)**	**4**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Income tax effect		–	–
	(d)	**–**	**–**
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	**(e=b+c+d)**	**(50)**	**1**
Other components that will be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		22	4
Loss (profit) transferred to Separate Consolidated Income Statement		(3)	14
Income tax effect		(1)	(8)
	(f)	**18**	**10**
Hedging instruments:			
Profit (loss) from fair value adjustments		99	(65)
Loss (profit) transferred to Separate Consolidated Income Statement		(92)	(77)
Income tax effect		(3)	33
	(g)	**4**	**(109)**
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		87	(610)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement		–	–
Income tax effect		–	–
	(h)	**87**	**(610)**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Loss (profit) transferred to Separate Consolidated Income Statement		–	–
Income tax effect		–	–
	(i)	**–**	**–**
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	**(k=f+g+h+i)**	**109**	**(709)**
Total other components of the Consolidated Statement of Comprehensive Income	**(m=e+k)**	**59**	**(708)**
Total comprehensive income (loss) for the period	**(a+m)**	**799**	**(101)**
Attributable to:			
Owners of the Parent		**584**	**9**
Non-controlling interests		215	(110)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE TIM GROUP

(millions of euros)		6/30/2019 (a)	12/31/2018 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		26,784	26,769	15
Intangible assets with a finite useful life		8,006	8,889	(883)
		34,790	**35,658**	**(868)**
Tangible assets				
Property, plant and equipment owned		14,089	14,251	(162)
Assets held under finance leases		–	1,895	(1,895)
		14,089	**16,146**	**(2,057)**
Right of use assets		**5,803**		**5,803**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		12	16	(4)
Other investments		54	49	5
Non-current financial receivable arising from lease contracts		60	54	6
Other non-current financial assets		2,030	1,540	490
Miscellaneous receivables and other non-current assets		2,944	2,291	653
Deferred tax assets		1,077	1,136	(59)
		6,177	**5,086**	**1,091**
Total Non-current assets	**(a)**	**60,859**	**56,890**	**3,969**
Current assets				
Inventories		316	389	(73)
Trade and miscellaneous receivables and other current assets		4,990	4,706	284
Current income tax receivables		83	251	(168)
Current financial assets				
Current financial receivables arising from lease contracts		*53*	*70*	*(17)*
Securities other than investments, other financial receivables and other current financial assets		*1,111*	*1,396*	*(285)*
Cash and cash equivalents		*1,700*	*1,917*	*(217)*
		2,864	**3,383**	**(519)**
Current assets sub-total		**8,253**	**8,729**	**(476)**
Discontinued operations /Non-current assets held for sale		**–**	**–**	**–**
Total Current assets	**(b)**	**8,253**	**8,729**	**(476)**
Total Assets	**(a+b)**	**69,112**	**65,619**	**3,493**

(millions of euros)		6/30/2019 (a)	12/31/2018 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		19,949	19,528	421
Non-controlling interests		2,385	2,219	166
Total Equity	**(c)**	**22,334**	**21,747**	**587**
Non-current liabilities				
Non-current financial liabilities for financing contracts and others		25,679	23,319	2,360
Non-current financial liabilities for lease contracts		4,814	1,740	3,074
Employee benefits		1,417	1,567	(150)
Deferred tax liabilities		313	192	121
Provisions		993	876	117
Miscellaneous payables and other non-current liabilities		3,348	3,297	51
Total Non-current liabilities	**(d)**	**36,564**	**30,991**	**5,573**
Current liabilities				
Current financial liabilities for financing contracts and others		2,780	5,705	(2,925)
Current financial liabilities for lease contracts		705	208	497
Trade and miscellaneous payables and other current liabilities		6,647	6,901	(254)
Current income tax payables		82	67	15
Current liabilities sub-total		**10,214**	**12,881**	**(2,667)**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		**–**	**–**	**–**
Total Current Liabilities	**(e)**	**10,214**	**12,881**	**(2,667)**
Total Liabilities	**(f=d+e)**	**46,778**	**43,872**	**2,906**
Total Equity and liabilities	**(c+f)**	**69,112**	**65,619**	**3,493**

CONSOLIDATED STATEMENTS OF CASH FLOWS OF THE TIM GROUP

(millions of euros)		1st Half 2019	1st Half 2018
Cash flows from operating activities:			
Profit (loss) from continuing operations		740	607
Adjustments for:			
Depreciation and amortization		2,496	2,122
Impairment losses (reversals) on non-current assets (including investments)		12	2
Net change in deferred tax assets and liabilities		193	269
Losses (gains) realized on disposals of non-current assets (including investments)		6	(3)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		3	2
Change in provisions for employee benefits		(214)	(23)
Change in inventories		73	(31)
Change in trade receivables and net amounts due from customers on construction contracts		(138)	(74)
Change in trade payables		(327)	(368)
Net change in current income tax receivables/payables		172	(25)
Net change in miscellaneous receivables/payables and other assets/liabilities		123	100
Cash flows from (used in) operating activities	**(a)**	**3,139**	**2,578**
Cash flows from investing activities:			
Purchases of intangible assets, tangible assets and rights of use on third party assets for cash		(2,126)	(2,255)
Capital grants received		6	2
Acquisition of control of companies or other businesses, net of cash acquired		–	–
Acquisitions/disposals of other investments		(4)	(3)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		131	34
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		–	–
Proceeds from sale/repayments of intangible, tangible and other non-current assets		6	12
Cash flows from (used in) investing activities	**(b)**	**(1,987)**	**(2,210)**
Cash flows from financing activities:			
Change in current financial liabilities and other		(367)	(209)
Proceeds from non-current financial liabilities (including current portion)		3,190	1,324
Repayments of non-current financial liabilities (including current portion)		(3,415)	(2,491)
Changes in hedging and non-hedging derivatives		(256)	121
Share capital proceeds/reimbursements (including subsidiaries)		5	11
Dividends paid		(246)	(222)
Changes in ownership interests in consolidated subsidiaries		–	2
Cash flows from (used in) financing activities	**(c)**	**(1,089)**	**(1,464)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**–**	**–**
Aggregate cash flows	**(e=a+b+c+d)**	**63**	**(1,096)**
Net cash and cash equivalents at beginning of the period	**(f)**	**1,631**	**3,246**
Net foreign exchange differences on net cash and cash equivalents	(g)	5	(51)
Net cash and cash equivalents at end of the period	**(h=e+f+g)**	**1,699**	**2,099**

Purchases of intangible assets, tangible assets and rights of use on third party assets

(millions of euros)	1st Half 2019	1st Half 2018
Purchase of intangible assets	(376)	(436)
Purchase of tangible assets (1)	(1,079)	(1,205)
Purchase of right of use assets	(318)	–
Total purchase of intangible, tangible and right of use assets on an accrual basis	(1,773)	(1,641)
Change in payables arising from purchases of intangible, tangible and right of use assets	(353)	(614)
Total purchases of intangible assets, tangible assets and rights of use on third party assets for cash	(2,126)	(2,255)

(1) In the first quarter of 2018 they include purchases of assets under finance leases.

Additional Cash Flow information

(millions of euros)	1st Quarter 2019	1st Quarter 2018
Income taxes (paid) received	(30)	(37)
Interest expense paid	(992)	(1,300)
Interest income received	282	633
Dividends received	–	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Half 2019	1st Half 2018
Net cash and cash equivalents at beginning of the period		
Cash and cash equivalents - from continuing operations	1,917	3,575
Bank overdrafts repayable on demand – from continuing operations	(286)	(329)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	1,631	**3,246**
Net cash and cash equivalents at end of the period		
Cash and cash equivalents - from continuing operations	1,700	2,102
Bank overdrafts repayable on demand – from continuing operations	(1)	(3)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	1,699	**2,099**

NET FINANCIAL DEBT OF THE TIM GROUP

(millions of euros)	6/30/2019 (a)	12/31/2018 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	20,479	18,579	1,900
Amounts due to banks, other financial payables and liabilities	5,200	4,740	460
Non-current financial liabilities for lease contracts	4,814	1,740	3,074
	30,493	**25,059**	**5,434**
Current financial liabilities (*)			
Bonds	1,025	2,918	(1,893)
Amounts due to banks, other financial payables and liabilities	1,755	2,787	(1,032)
Current financial liabilities for lease contracts	705	208	497
	3,485	**5,913**	**(2,428)**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	–	–	–
Total Gross financial debt	**33,978**	**30,972**	**3,006**
Non-current financial assets			
Securities other than investments	–	–	–
Non-current financial receivable arising from lease contracts	(60)	(54)	(6)
Financial receivables and other non-current financial assets	(2,030)	(1,540)	(490)
	(2,090)	**(1,594)**	**(496)**
Current financial assets			
Securities other than investments	(1,004)	(1,126)	122
Current financial receivables arising from lease contracts	(53)	(70)	17
Financial receivables and other current financial assets	(107)	(270)	163
Cash and cash equivalents	(1,700)	(1,917)	217
	(2,864)	**(3,383)**	**519**
Financial assets relating to Discontinued operations/Non-current assets held for sale	–	–	–
Total financial assets	**(4,954)**	**(4,977)**	**23**
Net financial debt carrying amount	**29,024**	**25,995**	**3,029**
Reversal of fair value measurement of derivatives and related financial liabilities/assets	*(696)*	*(725)*	*29*
Adjusted Net Financial Debt	**28,328**	**25,270**	**3,058**
Breakdown as follows:			
Total adjusted gross financial debt	**32,003**	**29,432**	**2,571**
Total adjusted financial assets	**(3,675)**	**(4,162)**	**487**
(*) of which current portion of medium/long-term debt:			
Bonds	*1,025*	*2,918*	*(1,893)*
Amounts due to banks, other financial payables and liabilities	*925*	*1,477*	*(552)*
Current financial liabilities for lease contracts	*705*	*208*	*497*

CHANGE IN ADJUSTED NET FINANCIAL DEBT OF THE TIM GROUP

(millions of euros)	1st Quarter 2019	1st Quarter 2019 Comparable (a)	1st Quarter 2018 (b)	Change (a-b)
EBITDA	4,391	4,065	3,733	332
Capital expenditures on an accrual basis	(1,481)	(1,481)	(1,597)	116
Investments for mobile licenses acquisition / spectrum	–	–	–	–
Change in net operating working capital:	(1,146)	(1,149)	(1,295)	146
Change in inventories	*73*	*73*	*(31)*	*104*
Change in trade receivables and net amounts due from customers on construction contracts	*(138)*	*(138)*	*(74)*	*(64)*
Change in trade payables	*(973)*	*(968)*	*(991)*	*23*
Changes of mobile licenses acquisition payable / spectrum	*–*	*–*	*(36)*	*36*
Other changes in operating receivables/payables	*(108)*	*(116)*	*(163)*	*47*
Change in provisions for employee benefits	(214)	(214)	(23)	(191)
Change in operating provisions and Other changes	269	269	68	201
Net operating free cash flow	**1,819**	**1,490**	**886**	**604**
Of which Operating Free Cash Flow related to the mobile licenses acquisition / spectrum	*–*	*–*	*(36)*	*36*
% of Revenues	*20.2*	*16.6*	*9.4*	*7.2 pp*
Sale of investments and other disposals flow	7	7	14	(7)
Share capital increases/reimbursements, including incidental expenses	5	5	11	(6)
Financial investments	(4)	(4)	(3)	(1)
Dividends payment	(246)	(246)	(222)	(24)
Increases in finance lease contracts	(292)	(18)	(44)	26
Finance expenses, income taxes and Other net non-operating requirements flow	(4,347)	(695)	(475)	(220)
Reduction/(Increase) in adjusted net financial debt from continuing operations	**(3,058)**	**539**	**167**	**372**
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	–	–	–	–
Reduction/(Increase) in adjusted net financial debt	**(3,058)**	**539**	**167**	**372**

INFORMATION BY OPERATING SEGMENTS OF THE TIM GROUP

DOMESTIC

(millions of euros)	1st Half 2019	1st Half 2019 comparable (a)	1st Half 2018 (b)	Change (a - b) amount	%	% organic excluding non-recurring
Revenues	7,069	7,069	7,423	(354)	(4.8)	(4.7)
EBITDA	2,929	2,749	3,037	(288)	(9.5)	(4.2)
EBITDA margin	*41.4*	*38.9*	*40.9*		*(2.0) pp*	*0.2 pp*
EBIT	1,029	1,012	1,371	(359)	(26.2)	(13.5)
EBIT margin	*14.6*	*14.3*	*18.5*		*(4.2) pp*	*(1.9) pp*
Headcount at period-end (number) (°)	**47,891**		**(*)48,200**	**(309)**	**(0.6)**	

(*) Headcount at December 31, 2018.
(°) Includes employees with temp work contracts: 6 units at June 30, 2019 (0 units at December 31, 2018).

Fixed

	6/30/2019	12/31/2018	6/30/2018
Physical accesses of TIM Retail (thousands)	9,530	10,149	10,644
of which NGN	*3,428*	*3,166*	*2,744*
Physical accesses of TIM Wholesale (thousands)	8,079	8,063	8,078
of which NGN	*2,869*	*2,262*	*1,598*
Active Broadband accesses of TIM Retail (thousands)	7,414	7,483	7,547
Consumer ARPU (€/month) (1)	35.7	34.0	32.8
Broadband ARPU (€/month) (2)	29.3	26.3	25,1

(1) Revenues from retail Consumer services in proportion to the average Consumer physical accesses.
(2) Revenues from broadband services in proportion to the average active TIM retail retail accesses.

Mobile

	6/30/2019	12/31/2018	6/30/2018
Lines at period end (thousands)	31,662	31,818	31,629
of which Human	21,956	22,448	23,132
Churn rate (%) (3)	9.4	26.3	12.5
Broadband users (thousands) (4)	13,124	13,015	13,590
Reported ARPU (€/month) (5)	8.7	9.8	10.1
Human ARPU (€/month) (6)	12.5	13.4	13.6

(3) The data refer to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
(4) Mobile lines using data services.
(5) Revenues from retail services (visitors and MVNO not included) in proportion to the average total lines.
(6) Revenues from retail services (visitors and MVNO not included) in proportion to the average human total lines.

Core Domestic

(millions of euros)	1st Half 2019 comparable	1st Half 2018	Change amount	Change %	Change % organic excluding non-recurring
Revenues	**6,704**	**6,943**	**(239)**	**(3.4)**	**(3.2)**
Consumer	*3,345*	*3,652*	*(307)*	*(8.4)*	*(8.4)*
Business	*2,313*	*2,305*	*8*	*0.3*	*0.3*
Wholesale	*938*	*877*	*61*	*7.0*	*7.0*
Other activities	*108*	*109*	*(1)*	*(0.9)*	*12.8*
EBITDA	**2,685**	**3,000**	**(315)**	**(10.5)**	**(5.0)**
EBITDA margin	40.1	43.2		(3.1) pp	(0.9) pp
EBIT	**1,004**	**1,389**	**(385)**	**(27.7)**	**(15.0)**
EBIT margin	15.0	20.0		(5.0) pp	(2.6) pp
Headcount at period-end (number) (°)	**47,151**	(*)**47,455**	**(304)**	**(0.6)**	**–**

(*) Headcount at December 31, 2018.
(°) Includes employees with temp work contracts: 6 units at June 30, 2019 (0 units at December 31, 2018).

International Wholesale

(millions of euros)	1st Half 2019 comparable	1st Half 2018	Change amount	Change %	Change % organic excluding non-recurring
Revenues	**469**	**609**	**(140)**	**(23.0)**	**(24.1)**
of which third party	*386*	*516*	*(130)*	*(25.2)*	*(26.5)*
EBITDA	**65**	**53**	**12**	**22.6**	**18.2**
EBITDA margin	*13.9*	*8.7*	–	*5.2 pp*	*5.0 pp*
EBIT	**8**	**(4)**	**12**	**–**	**–**
EBIT margin	*1.7*	*(0.7)*	–	*2.4 pp*	*2.3 pp*
Headcount at period-end (number)	**740**	**745**	**(5)**	**(0.7)**	

(*) Headcount at December 31, 2018.

The International Wholesale Cash Generating Unit consists of the companies of the Telecom Italia Sparkle group; part of the TIM Group's goodwill was allocated on the CGU.

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BRAZIL

	(millions of euros)			(millions of Brazilian reais)			Change		
	1°Half. 2019	**1°Half. 2019 comparable**	**1°Half. 2018**	**1°Half. 2019**	**1°Half 2019 comparable**	**1° Half. 2018**	amount	%	% organic excluding non-recurring
		(a)	(b)		(c)	(d)	(c-d)	(c-d)/d	
Revenues	1,946	1,946	2,001	8,454	8,454	8,282	172	2.1	2.1
EBITDA	1,467	1,321	704	6,370	5,738	2,915	2,823	96.8	5.9
EBITDA margin	*75.3*	*67.9*	*35.2*	*75.3*	*67.9*	*35,2*		*32.7 pp*	*1.3 pp*
EBIT	862	863	252	3,747	3,749	1,042	2,707	-	5.5
EBIT margin	*44.3*	*44.3*	*12.6*	*44.3*	*44.3*	*12.6*		*31.7 pp*	*0.4 pp*
Personale a fine periodo (unità)				9,411		(1) 9,658			

(1)Headcount at December 31, 2018.

EFFECTS OF NON-RECURRING EVENTS AND TRANSACTIONS ON EACH ITEM OF THE SEPARATE CONSOLIDATED INCOME STATEMENTS OF THE TIM GROUP

The effects of non-recurring events and transactions on the separate consolidated income statements line items are set out below in accordance with Consob communication DME/RM/9081707 dated September 16, 2009:

(millions of euros)	1° Semestre 2019	1° Semestre 2018
Revenues:		
Revenue adjustments of previous years	(15)	–
Other income:		
Brazil Business Unit Tax recovery effect	662	–
Acquisition of goods and services, Change in inventories:		
Professional expenses, consulting services and other costs	(6)	(6)
Employee benefits expenses:		
Expenses related to restructuring, rationalization and other	(33)	(8)
Other operating expenses:		
Sundry expenses and other provisions	(276)	(107)
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**332**	**(121)**
Impact on EBIT - Operating profit (loss)	**332**	**(121)**
Other income (expenses) from investments:		
Net gains on disposals of Other investments	1	–
Finance expenses:		
Miscellaneous finance expenses	(31)	(5)
Impact on profit (loss) before tax from continuing operations	**302**	**(126)**
Income taxes on non-recurring items	(119)	8
Impact on profit (loss) for the period	**183**	**(118)**

TIM GROUP - DEBT STRUCTURE, BOND ISSUES AND EXPIRING BONDS

Revolving Credit Facilities and term loans

The following table shows committed credit lines available at June 30, 2019:

(billions of euros)	30.6.2019		12/31/2018	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – maturing January 2023	5.0	-	5.0	-
Total	**5.0**		**5.0**	**-**

At December 30, 2019, TIM had bilateral Term Loans with various counterparties for 1,750 million euros and unused Hot Money facilities for 40 million euros.

Bonds

Changes in bonds over the first half of 2019 are shown below:

(millions of original currency)	**Currency**	**Amount**	**Issue date**
New issues			
Telecom Italia S.p.A. 1,250 million euros 4.000% (4/11/2024)	Euro	1,250	11/1/2019
TIM S.A. 1,000 million reais 104.10% CDI (7/15/2020)	BRL	1,000	25/1/2019
Telecom Italia S.p.A. 1,000 million euros 2.750% (4/15/2025)	Euro	1,000	4/15/2019

(millions of original currency)	**Currency**	**Amount**	**Repayment date**
Repayments			
Telecom Italia S.p.A. 832 million euros 5.375% (1)	Euro	832	29/1/2019
Telecom Italia S.p.A. 760 million US dollars 7.175% (2)	USD	760	18/6/2019
Telecom Italia S.p.A 850 million GBP 6.375%	GBP	850	24/6/2019

(1) Net of buy-backs totaling 418 million euros made by the company in 2015.
(2) Net of the securities bought back by TIM S.p.A. (240 million USD) on July 20, 2015.

With reference to Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, the nominal amount at June 30, 2019 was 201 million euros, down by 2 million euros compared to December 31, 2018 (203 million euros).

The nominal amount of repayment, net of the Group's bonds buyback, related to the bonds expiring in the following 18 months as of June 30, 2019 issued by TIM S.p.A., Telecom Italia Finance S.A. and Telecom Italia Capital S.A. (fully and unconditionally guaranteed by TIM S.p.A.) totals 1,496 million euros with the following detail:

- 720 million euros, due January 21, 2020;
- 229 million euros (equivalent to 1,000 BRL million), due July 15, 2020.
- 547 million euros, due September 25, 2020;

Bonds issued by the TIM Group do not contain financial *covenants* (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) or clauses that result in the automatic early redemption of the bonds in relation to events other than the insolvency of the TIM Group(1); furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except

(1) A change of control event can result in the early repayment of the convertible bond of TIM S.p.A., as further detailed below.

for the full and unconditional guarantees provided by TIM S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..
Since the bonds were placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets. Consequently, they carry negative pledges, such as, for example, the commitment not to pledge the company's assets as collateral for loans.

With regard to the loans taken out by TIM S.p.A. with the European Investment Bank ("EIB"), at June 30, 2019, the nominal amount of outstanding loans amounted to 950 million euros, of which 800 million euros at direct risk and 150 million euros secured.
EIB loans not secured by bank guarantees for a nominal amount equal to 800 million euros are subject to the following covenants:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes of or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);
- with the 500 million euros loan, signed on December 14, 2015, TIM undertook to ensure that, for the entire duration of the loan, the total financial debt of the Group companies other than TIM S.p.A. – except for the cases when that debt is fully and irrevocably secured by TIM S.p.A. – is lower than 35% (thirty-five percent) of the Group's total financial debt.

EIB loans secured by banks or entities approved by the EIB and direct risk loans are subject to the following covenants:

- "Inclusion clause", under which, in the event TIM commits to uphold financial covenants in other loan contracts (and even more restrictive clauses for 2014 and 2015 direct risk loans, including, for instance, cross default clauses and commitments restricting the sale of goods) that are not present in or are stricter than those granted to the EIB, the EIB will have the right – if, in its reasonable opinion, it considers that such changes may have a negative impact on TIM's financial capacity – to request the provision of guarantees or an amendment of the loan contract in order to establish an equivalent provision in favor of the EIB;
- "Network Event", under which, in the event of the disposal of the entire fixed network or of a substantial part of it (in any case, more than half in quantitative terms) to third parties not controlled by the Company, or in the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, TIM must immediately inform the EIB, which may then opt to demand collateral or an amendment of the loan contract or choose an alternative solution.

The loan agreements of TIM S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed.
The loan agreements contain the usual other types of covenants, including the commitment not to pledge the Company's assets as collateral for loans (negative pledge) and the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in export credit loan agreements.

In the Loan Agreements and the Bonds, TIM is required to provide notification of change of control. Identification of the occurrence of a change of control and the applicable consequences – including, at the discretion of the investors, the establishment of guarantees or the early repayment of the amount paid in cash or as shares and the cancellation of the commitment in the absence of agreements to the contrary – are specifically covered in the individual agreements.
Furthermore, the outstanding loans contain a general commitment by TIM, whose breach is an event of default, not to implement mergers, demergers or transfer of business, involving entities outside the Group. Such event of default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the cancellation of the undrawn commitment amounts.

In the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, under pain of a request for the early repayment of the loan.

Finally, as at June 30, 2019, no covenant, negative pledge or other clause relating to the aforementioned debt position had in any way been breached or violated.

ALTERNATIVE PERFORMANCE MEASURES

In this press release, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for the purposes of enabling a better understanding of the performance of operations and the financial position of the TIM Group. Such measures, which are presented in the periodical financial reports (annual and interim), should, however, not be considered as a substitute for those required by IFRS.

Specifically, following the adoption of IFRS 16, the TIM Group uses the following additional alternative performance indicators:

- **EBITDA adjusted After Lease ("EBITDA-AL")**, calculated by adjusting the Organic EBITDA net of the non-recurring items, amounts connected with the accounting treatment of the finance leasing contracts according to IAS 17 (applied until year-end 2018) and according to IFRS 16 (applied starting from 2019). This financial measure is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level), in addition to EBIT;
- **Adjusted net financial debt After Lease**, calculated by excluding the liabilities connected with the accounting treatment of the finance leasing contracts from the adjusted net financial debt according to IAS 17 (applied until year-end 2018) and according to IFRS 16 (applied starting from 2019). TIM believes that the Adjusted net financial debt After Lease represents an indicator of the ability to meet its financial obligations.

The other alternative performance measures used are described below:

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

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

- **Organic change and impact of the non-recurring items on revenues, EBITDA and EBIT:** these measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, the exchange differences and the non-recurring events and transactions. TIM believes that this method of presentation provides a more complete and effective interpretation of the Group's operating performance (as a whole and with reference to the Business Units); it is therefore also used in the presentations to analysts and investors. This press release provides a reconciliation between the "accounting or reported" figures and the "organic excluding the non-recurring component" ones.

- **EBITDA margin and EBIT margin:** TIM believes that these margins represent some useful indicator of the ability of the Group (as a whole and at Business Unit level) to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analyzing the percentage of revenues that are converted into EBITDA and EBIT, respectively. Such indicators are used by TIM in internal presentations (business plans) and in external presentations (to analysts and investors) in order to illustrate the results from operations also through the comparison of the operating results of the reporting period with those of the previous periods.

- **Net Financial Debt:** TIM believes that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. This press release includes a table showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group.

In order to better represent the actual change in Net Financial Debt, in addition to the usual measure (named "Net financial debt carrying amount"), the "Adjusted net financial debt" is also shown, which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial liabilities/assets.

Net financial debt is calculated as follows:

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