Carve-out financial statements at December 31, 2019

Vodafone Towers S.r.l.

Carve-out financial statements at December 31, 2019

Contents

Statement of financial position

(thousands of euro)

Assets	Notes	At 12/31/2019
Non-current assets		
Property, plant and equipment	6.1	173,382
Rights of use on third-party assets	6.2	294,289
Total Non-current assets		467,671
Current assets		
Trade and miscellaneous receivables and other current assets	6.3	142,983
Total Current assets		142,983
Total Assets		610,654

Equity and Liabilities	Notes	At 12/31/2019
Equity and Liabilities		
Equity		
Total Equity	6.4	(264,723)
Liabilities		
Non-current liabilities		
Employee benefits	6.5	(1,303)
Provisions	6.6	(39,873)
Deferred tax liabilities provisions	6.7	(1,256)
Non-current financial liabilities	6.2	(198,083)
Total Non-current liabilities		(240,515)
Current liabilities		
Trade and miscellaneous payables and other current liabilities	6.8	(22,979)
Income tax payables	6.9	(4,449)
Current financial liabilities	6.2	(77,654)
Other current financial liabilities	6.10	(334)
Total current Liabilities		(105,416)
Total liabilities		(345,931)
Total Equity and Liabilities		(610,654)

Separate Income Statement

(thousands of euro)

Separate Income Statement	Notes	For the year ended 12/31/2019
Revenues	7.1	85,261
Acquisition of goods and services	7.2	(39,527)
Employee benefits expenses - Ordinary expenses	7.3	(2,423)
Other operating expenses	7.4	(5,273)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		38,038
Amortization, gains/losses on disposals and impairment losses on non-current assets	7.5	(139,116)
Operating profit (loss) (EBIT)		(101,078)
Financial expenses	7.6	(8,776)
Profit (loss) before tax		(109,854)
Income tax expense	7.7	(3,193)
Profit for the period		(113,047)

Statement of Comprehensive Income

(thousands of euro)

Statement of Comprehensive Income	For the year ended 12/31/2019
Profit for the period	(113,047)
Other items of the Statement of Comprehensive Income	
Other items that will not subsequently be reclassified in the Separate Income Statement	-
Total other items that will not subsequently be reclassified in the Separate Income Statement	-
Other items that will subsequently be reclassified in the Separate Income Statement	-
Total other items that will subsequently be reclassified in the Separate Income Statement	-
Total other items of the Statement of Comprehensive Income	-
Total Comprehensive income for the period	(113,047)

Statement of changes in net equity

(thousands of euro)

	Existing at January 1, 2019	Share capital	Carve-Out contribution	Losses (profit) carried forward including the profit for the period	Equity at December 31, 2019
Equity	(256,569)	(10)	(121,191)	113,047	(264,723)

Cash flow statement

(thousands of euro)

Cash flows from operating activities:	At 12/31/2019
Profit for the period	(113,047)
Adjustments for:	
Depreciation and amortization, losses on disposals and impairment losses on non-current assets	139,116
Financial expenses	8,776
Net change in deferred tax assets and liabilities	1,256
Change in provisions for employee benefits	(8)
Change in trade and miscellaneous receivables and other assets	(59,970)
Change in trade and miscellaneous payables and other liabilities	5,233
Other non-monetary changes	6,397
Cash flows used in operating activities (a)	(12,247)
Cash flows from investing activities:	
Total acquisitions of intangible and tangible assets	(25,598)
Cash flows used in investing activities (b)	(25,598)
Cash flows from financing activities:	
Changes in current and non-current financial liabilities	(83,356)
Carve-Out contribution	121,191
Share Capital increase	10
Cash flows from financing activities (c)	37,845
Comprehensive cash flows (d=a+b+c)	-
Net cash and cash equivalents at beginning of the period	-
Net cash and cash equivalents at end of the period	-

The cash absorption of Vodafone Towers S.r.l., equal to euro 121,191 thousand, was considered as a Carve-out contribution to increase equity, as the related liquidity was contributed by Vodafone Italia S.p.A., to which the Business Unit belongs.

Vodafone Towers S.r.l.

Via Lorenteggio 240, Milan (MI)
Share capital €10,000.00
Enrollment number on the Business Register, Tax Code and VAT no. 10934930966
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Explanatory notes to the Carve-out financial statements at December 31, 2019

1. General information

During 2019, Vodafone Italia S.p.A. began a corporate reorganization process with the aim of separating the so-called "Towers" business unit (hereinafter "**Towers Unit**"), through a partial proportional demerger (hereinafter "**Demerger**"), in favor of a newly established company controlled by Vodafone Europe B.V. (hereinafter "**VOD EU**"), sole shareholder of Vodafone Italia S.p.A (hereinafter "**VOD ITA**"), in view of a subsequent business combination process with Infrastrutture Wireless Italiane S.p.A. (hereinafter "**INWIT**").

The Tower Unit is mainly made up of the passive infrastructures for the construction of transmission systems for mobile telephony and radio networks (10,989 towers, including civil infrastructures and related works), contracts for the use of spaces that house the towers and hosting agreements and services to other operators.

By deed dated August 1, 2019, registered on August 5, 2019, Vodafone Towers S.r.l. was established (hereinafter also "the **Company**" or "**Vodafone Towers**"), a company based in Italy and beneficiary of the Towers Unit, as previously reported, in the Demerger completed with a demerger deed registered on December 4, 2019. The effects of the Demerger, for accounting and tax purposes, were effective from December 1, 2019.

Following the completion of the Demerger, the Company and INWIT continued the corporate procedure to implement the merger with the incorporation of the Company into INWIT (hereinafter, the "**Merger**") and, in particular, the respective shareholders' meetings of the participating companies in the Merger approved the Merger plan on December 19, 2019, and the overall business combination transaction envisaged by the same.

In particular, the Merger plan envisaged that: *(i)* at the time immediately prior to the Merger taking effect, INWIT would purchase a 43.4% stake in the Company's share capital from VOD EU and *(ii)* by virtue of the Merger and at the service of the exchange ratio applicable to the same, VOD EU would receive, against the cancellation of its residual stake in the Company, no. 360,200,000 newly issued INWIT ordinary shares to be admitted to trading on the mercato telematico azionario organized and managed by Borsa Italiana SpA (hereinafter the "**Admission to Trading of New INWIT Shares**)".

This document shows the financial information of the Company with reference to the 2019 calendar year only without comparative data (hereinafter the "**Carve-Out financial statements**"). To this end, it should be noted in advance that the Towers Unit constitutes a corporate activity within the meaning of the definition contained in Appendix A of IFRS 3 - Business combinations, which operates within the Vodafone Group. However,

- up to the effective date of the Demerger, the Towers Unit never operated independently as a separate company. The Towers Unit was identified and structured as a function with its own autonomous management within the Vodafone Group only beginning from the month of December 2019;
- it does not constitute an operating segment within the Vodafone Group pursuant to IFRS 8 - Operating segments;
- it was not monitored separately by the Vodafone Group management and therefore the information required to reconstruct its historical income statements and statements of financial position is not available, even at a management account level.

With particular reference to operating and financial information of the Towers Unit, it is noted that:

- revenues, other than those from third parties, cannot be identified separately in the overall revenue of the Vodafone Group;
- some categories of historical costs could have been identified only on the basis of multiple and complex assumptions which would have rendered the calculation difficult and highly subjective;
- given the approach adopted by the management in previous years and that previously indicated, it is not possible to identify the net working capital or the financial structure, at least in relation to the years prior to the Company being established.

In light of the above, the preparation of comparative data for the Company's Carve-out financial statements is not feasible and, in any event, would not be able to provide representative information for users of the Carve-Out financial statements in relation to the equity, financial situation and economic history of the Towers Unit and, in the Company's opinion, taking into account the business model and structure of costs and revenues as a result of the Demerger, it would not provide any useful information to users of the financial statements. Such comparative data would not be suitable to provide any useful information to users of the financial statements, since: i) it would be based solely on some components of historical costs attributable to the Vodafone Group whose determination would in any event involve the use of numerous and complex estimates and assumptions, characterized by a significant subjectivity, ii) revenues relating to the commercial relationship with the Vodafone Group, which at the effective date of the Demerger represent approximately 80% of the total on an annual basis, could not be identified and iii) the working capital and financial structure cannot be identified.

Furthermore, the preparation of comparative Carve-Out data is not required under the circumstances for the purposes of the financial information that INWIT must prepare in relation to the Admission to Trading of the New INWIT Shares.

2. Summary of criteria adopted for the preparation of the Carve-Out financial statements

The main drafting criteria adopted for the preparation of the Carve-out financial statements as at December 31, 2019 are shown below.

2.1. Preparation basis

VOD ITA prepares its financial statements in accordance with the provisions of articles 2423 and following of the Italian Civil Code, integrated and interpreted by the national accounting standards issued by the Italian Accounting Body (hereinafter "**Italian GAAP**") and a reporting package to allow Vodafone Group Plc to prepare its consolidated financial statements in accordance with international accounting standards (hereinafter "**IFRS Reporting Package**"). VOD ITA's financial year closes on March 31, consistently with that of Vodafone Group Plc.

The economic and financial results, as well as the financial position of the Towers Unit, as reported above, are incorporated into VOD ITA until the Demerger becomes effective. Therefore, these Carve-Out financial statements have been prepared on the basis of the results of the general and management accounting of VOD ITA for the purpose of drafting the IFRS Reporting Package for the calendar year January 1, 2019 - December 31, 2019.

The Carve-Out financial statements reflect the historical carve-out information relating to the economic and financial results, cash flows and the statement of financial position, directly or indirectly attributable to the Towers Unit, including an allocation of VOD ITA's indirect structure costs. In particular, the elements of the statement of financial position, as well as the revenues and costs have been allocated, where possible and applicable, using the various methodologies detailed below. The management believes that the assumptions underlying the preparation of the Carve-Out financial statements, including the allocation of the indirect structure costs, are reasonable. However, if the assets and liabilities belonging to the Towers Unit had actually been attributable to the Company in the entire 2019 financial year, the equity, financial and economic results shown in the Carve-out financial statements would not necessarily have occurred. Therefore, these figures do not represent the financial situation and actual results of the Towers Unit were it to have operated as a separate company in the calender year. Furthermore, the Carve-Out financial statements figures must not be assimilated to forecast figures of the same.

These Carve-Out financial statements have been prepared for the sole purpose of allowing INWIT to prepare pro-forma financial information to show the effects of the Merger on INWIT's equity, financial and economic situation relating to the financial year ended December 31, 2019, to be included in the prospectus INWIT itself is preparing pursuant to the Issuers Regulation adopted with CONSOB resolution no. 11971 of May 14, 2019, as subsequently amended in relation to the admission to trading of the new INWIT shares.

The Carve-Out financial statements were prepared in accordance with international accounting standards, meaning all "International Financial Reporting Standards", all "International Accounting Standards" (IAS), all interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), previously called "Standing Interpretations Committee" (SIC) which were subject to approval by the European Union pursuant to the procedure set out in Regulation (EC) no. 1606/2002 of the European Parliament and of the European Council of July 19, 2002 (hereinafter "**IFRS**") and according to the specific carve-out criteria illustrated below.

Furthermore, the Carve-Out financial statements have been drawn up with a view to continuing the company's business and using the conventional historical cost criterion, except for in the event the measurement of financial assets and liabilities required the application of the criterion of fair value.

The Carve-out financial statements were prepared in euros, which is the currency of the prevailing economic environment in which the Company operates. All amounts included in this document are presented in thousands of euros, unless otherwise indicated.

2.2. Allocation criteria for the Carve-out financial statements

The preparation of the Carve-out financial statements required the use of the allocation criteria shown below.

Separate Income Statement

Revenues, other than those from third parties, cannot be distinguished separately from the Vodafone Group's overall revenues and, therefore, the revenues associated with the activities carried out by the Towers Unit for VOD ITA for the period between January 1, 2019 and November 30, 2019 have not been measured for the purposes of preparing the Carve-Out financial statements. Revenues relating to the month of December 2019 are regulated by a Master Service Agreement between VOD ITA and the Company and, therefore, have been promptly reported in the Carve-Out.

Revenues from third parties, on the other hand, can be identified separately in the overall revenues of VOD ITA and, therefore, the determination of the value attributable to the Towers Unit did not entail the use of any allocation criteria.

Costs for the purchase of materials and services, employee benefits expenses and other operating costs that can be promptly identified and directly related to the Towers Unit have been included in the Carve-Out financial statements. However, in some circumstances it was necessary to identify allocation parameters, considered in the most appropriate circumstances. The main allocation parameters used for the preparation of the Carve-Out financial statements are shown by revenue, number of passive infrastructures and number of Company employees.

It should also be noted that certain types of costs are covered by the Master Service Agreement signed between the Company and VOD ITA and applicable from December 1, 2019, the accounting effects of which are reported in the Carve-Out financial statements.

No deferred tax assets were recorded on losses at December 31, 2019, as the negative result is attributable to the failure to measure revenues from VOD ITA for the period between January 1, 2019 and November 30, 2019, as previously explained.

Statement of financial position

Taking into account the incorporation of the Company in December 2019, the assets and liabilities included in the Carve-Out financial statements as at December 31, 2019, were attributed in a timely manner to the Towers Unit and, consequently, recourse to the use of allocation criteria was not necessary.

To this end, it should be noted that for the purposes of drafting the IFRS Reporting Package, VOD ITA adopted the IFRS 16 standard starting from April 1, 2019. For the purposes of drafting the Carve-Out financial statements, the assets and liabilities recorded in relation to lease contracts were determined with the early application of the IFRS 16 standard on January 1, 2019.

The financial management of the Company is centralized in VOD ITA. As of December 31, 2019 and during 2019, the Company did not have cash and cash equivalents or bank current accounts or financing agreements which, therefore, were not attributed to the Towers Unit for the purposes of the Carve-Out financial statements.

Since the Vodafone Group and VOD ITA historically financed the activities of the Towers Unit, for the purposes of representing the cash flow statement included in the Carve-Out financial statements, the Company's cash absorption was considered as a Carve-Out contribution to increase equity.

2.3. Carve-out financial statements structure

The Carve-out financial statements include the statement of financial position, the separate income statement, the statement of comprehensive income, the statements of changes in net equity, the cash flow statement and the explanatory notes as at December 31, 2019.

The structure used best represents the Company's economic, equity and financial situation. The financial statements and related classification criteria adopted in the preparation of the Carve-out financial statements are indicated below, within the options provided by IAS 1 "Presentation of financial statements":

- the statement of financial position was prepared by classifying assets and liabilities according to the "current and non-current" principle;
- the separate Income Statement was prepared by classifying operating costs according to their nature. This form was deemed more suitable to show the specific business of the Company and is in line with the practice of the reference industrial sector. The Income Statement includes, in addition to EBIT (Operating Earnings), the alternative performance indicator called EBITDA (operating earnings before amortization, depreciation, gains (losses), and Impairment reversals (losses) on non-current assets);
- the comprehensive income statement was prepared to include, in addition to the profit for the year, the other changes in the net equity items relating to items of an economic nature which, by express provision of the international accounting standards, are recognized among the components of net equity;
- the statement of Cash Flows was prepared by showing the cash flows deriving from operating activities in accordance with the "indirect method", as allowed by the IAS 7;

- the statement of changes in the net equity accounts is presented with separate evidence of the profit for the year and any income and charges not recognized in the income statement, but charged directly to net equity on the basis of specific IFRSs.

2.4. Drafting criteria for the Carve-out financial statements

Tangible assets

Owned property, plant and equipment are recorded at the cost of purchase or production. Those costs borne subsequent to purchase, are capitalized only if they result in an increase in the future economic benefits inherent to the good to which they refer. All other costs are posted in the income statement as they arise. The cost of assets also includes the costs of dismantling of the asset and of the restoration of the site when there is a legal or implied obligation to do so. The corresponding liability is recognized in a provision for risks and charges at current value; the recognition to the separate income statement of the capitalized charge, takes place during the course of the useful life of the corresponding tangible assets, by means of the amortization of such assets. The redetermination of the estimates of dismantling costs, time-discounting rates and the dates on which these costs are expected to be borne, is carried out at each balance sheet date. Any change in the aforementioned liabilities must be recognized as an increase or a reduction in the cost of the corresponding asset; the amount deducted from the value of an asset must not exceed the book value of that asset. Any excess is immediately recorded in the separate income statement, by agreement, under depreciation and amortization.

Government grants relating to tangible assets are recognized as a reduction in the carrying amount of the related asset, as required by IAS 20.

Depreciation methods and periods

Depreciation begins when the asset is available for use and is systematically distributed in relation to asset's residual possibility of use, based on its estimated useful life. The estimated useful life of the main tangible assets is approximately 8 years, in line with the accounting policies adopted by VOD ITA for the preparation of the IFRS Reporting Package.

Lease contracts

In accordance with IFRS 16 - Leases, all lease contracts with a duration of more than 12 months, unless relating to low value assets, in which the Company operates as a lessee, are accounted for by recognizing an asset, representative of the "right of use", and a liability, representative of the obligation to make the payments provided for in the contract.

The Company availed itself of the option to adopt a simplified first application approach. In particular, the right of use recorded for assets covered by lease contracts is quantified in an amount equal to the value of the related liability on the adoption date of January 1 and adjusted for the effect of prepayments and accrued expenses relating to early and deferred leases respectively recorded in the financial statements on that date. The Company also made use of the exemptions provided by the standard with reference to lease contracts with a duration of less than 12 months, including contracts whose residual duration on the date of adoption is less than 12 months, and those relating to assets of insignificant unit value. The Company also made use of the option to exclude the direct initial costs for the measurement of the right of use on the date of the first application as well as to use "hindsight" in determining the duration of lease contracts in the event there are renewal or contract termination options.

Liabilities relating to lease contracts are measured at the present value of the residual lease payments on the date of adoption of the standard which are fixed or determinable with reasonable certainty for the entire duration of the lease contract. The duration of lease contracts includes all the non-cancelable periods for which the Company has the right to use the asset covered by the lease contract, as well as the periods relating to renewal options in favor of the Company, the exercise of which is deemed reasonably certain. Lease contract liabilities do not include significant non-leasing components.

The discount rate used to measure the value of liabilities relating to lease contracts takes into account the country risk, the currency, the lease contract duration and the credit risk of the Company. The weighted average discount rate used to measure the value of liabilities relating to lease contracts in which the Company operates as a lessee is equal to 1.99% on January 1, 2019.

The Company also operates as a lessor in certain lease contracts. In these cases, which maintain the distinction as operational or financial leases for the purpose of determining the related accounting, the Company classified these contracts as operating and, therefore, provided for the linear recognition of the related fees based on the duration of the related contracts.

Trade and miscellaneous receivables and other current assets

Trade and other receivables are initially recognized at fair value and, after initial recognition, are measured at amortized cost using the effective interest method.

Trade receivables mainly consist of fees deriving from active lease payments for portions of space on towers contracted with other companies in the telecommunications sector (so-called "hosting contracts").

Trade and other receivables are reduced by an appropriate write-down to reflect the estimate of impairment losses that are recognized in the income statement.

In addition, the Company adopts the "Hold to collect" model envisaged by IFRS 9 in the management of trade receivables, since these are generally receivables for services provided characterized by a low level of risk and held to maturity. For these receivables, the Company adopts the simplified model that calls for measuring the Expected Credit Loss on the entire useful life of the credit.

Employee benefits

Employee benefits include the non-current liability for "severance indemnities" ("TFR") due to employees pursuant to article 2120 of the Italian Civil Code. This liability falls within the so-called employee fixed benefit plans. In such plans, the amount of the benefit to be paid to the employee can only be quantified after termination of that employee's employment and is linked to one or more factors, such as age, years of service and salary; thus the corresponding charge is determined by means of an actuarial calculation. The liability recorded in the financial statements for fixed benefit plans corresponds to the current value of the liability at the date of the financial statements. Liabilities for fixed benefit plans are calculated annually by an independent actuary, using the projected unit credit method. Actuarial gains and losses deriving from changes in the actuarial assumptions, are imputed to the statement of comprehensive income.

As of January 1, 2007, the 2007 Finance Act and the corresponding implementing decrees, have introduced important changes to the way TFR is regulated, including the employee's choice of use of his/her own TFR as it falls due. Specifically, the new flows of TFR may be directed by the employee toward selected forms of pension plan, or may be kept in the company. In the event that the employee decides to assign TFR to independent pension schemes, the company is only bound to make a contribution to the chosen pension fund, and starting from that date, the newly matured quotas shall take the form of fixed contribution plans not subject to actuarial assessment.

Provisions

The Company records provisions for risks and charges when, in the presence of a current liability, either legal or implied, to third parties as the result of a past event, it is probable that funds will have to be used to meet the liability, and a reliable estimate of the entity of the liability itself will be called for when possible. When the financial effect of the passing of time is significant, the payment dates of the liabilities are reliably estimable, the allocation is determined by time-discounting the expected cash flows calculated bearing in mind the risks.

Deferred tax liabilities provisions

Deferred taxes are recognized in relation to the temporary differences between the book values of the assets and liabilities recorded in the financial statements and the corresponding values recognized for tax purposes.

Trade and miscellaneous payables and other liabilities

Trade payables and other payables are measured, at the time of initial recognition, at fair value, normally equal to the nominal value, net of discounts, returns or invoicing adjustments, and are subsequently measured at amortized cost. If there is a change in cash flows and the possibility of reliably estimating them, the value of the payables is recalculated to reflect this change on the basis of the present value of the new cash flows and the internal rate of return initially determined.

Revenues

Taking into account the contents of note 2.2 in relation to the failure to measure activities carried out in favor of VOD ITA in the period between January 1, 2019 and November 30, 2019, the revenues represent the gross flows of economic benefits deriving from the year from carrying out ordinary activities. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes, are not economic benefits enjoyed by the Company, and do not result in an increase in net equity. For this reason they are not included in Revenues. Revenues are only recorded when it is likely that the Company will receive economic benefits, and the entity of such benefits can be reliably calculated; they are represented net of discounts, allowances and returns.

Revenues from customers are recognized when the following conditions are met:

- the contract with the customer was identified;
- the contractual performance obligations contained in the contract were identified;
- the price was determined;
- the price was allocated to the individual contractual performance obligations contained in the contract;

the contractual performance obligation contained in the contract was fulfilled.

Costs

Costs are recorded on an accrual basis when related to services and goods purchased or consumed during the year or for systematic distribution when the future usefulness of the same cannot be identified.

Financial income and expenses

Financial income and expenses are recognized on an accrual basis and include: interest accrued on the related financial assets and liabilities using the effective interest rate method.

Taxes

Current taxes are recognized in the income statement, with the exception of those relating to items recognized outside the income statement which are recognized directly in equity.

Deferred and prepaid income taxes are calculated on the temporary differences between the assets recorded in the financial statements and the corresponding values recognized for tax purposes, applying the tax rate in force on the date on which the temporary difference will be reversed, determined on the basis of the tax rates envisaged by provisions in force on the reference date.

Related Parties

Related parties means those that share the same controlling entity with the Company, companies that directly or indirectly control it, are controlled, or are subject to joint control by the Company and those in which it holds a stake that can exercise a significant influence. The definition of related parties also includes the members of the Company's Board of Directors and managers with strategic responsibilities. Managers with strategic responsibilities are those who have the power and responsibility to plan and control the Company’s activities, directly or indirectly.

3. Use of estimates and assessments

The preparation of the financial statements requires the directors to apply accounting policies and methods which, in certain circumstances, are based on assessments and estimates based on historical experience and assumptions, which are considered reasonable and realistic at the time according to the related circumstances. The application of these estimates and assumptions has an effect on the values of the assets and liabilities of the costs and revenues recorded in the financial statements and on the information relating to potential assets and liabilities at the closing date of the year. The final results could differ from these estimates.

The financial statement items that require more subjectivity on the part of the Directors in the preparation of the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the aggregated restated financial data are briefly described below.

- *Receivables assessment*: the bad debt provision reflects the estimates of expected losses for the Company's receivables portfolio. Provisions were made for expected receivables losses, estimated on the basis of past experience with reference to outstanding amounts as well as careful monitoring of the quality of the receivables portfolio and the current and expected conditions of the economy and reference markets. The estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement in the year in which they are accrued.

- *Impairment of assets*: assets are written down when events or changes in circumstances suggest that the book value is not recoverable. Events that can determine a write-down of assets are changes in business plans, changes in market prices and reduced use of plant. The decision whether to proceed with a write-down and its quantification depend on management assessments of complex and highly uncertain factors, including the future trend of prices, impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand. The write-down is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use determined by discounting the expected cash flows deriving from the use of the asset. Expected cash flows are quantified in the light of the information available at the time of the estimate based on subjective trends on future variables, such as prices, costs, demand growth rates and production profiles, and are discounted using a rate that takes into account the risk inherent in the activity concerned.
- *Useful life of tangible assets:* depreciation is calculated based on the useful life of the asset. The useful life is determined when the asset is entered in the financial statements. Lifespan assessments are based on historical experience, market conditions and expectations of future events that could affect the useful life itself, including technological changes. As a result, it is possible that the effective useful life may differ from the estimated useful life.
- *Definition of the duration of passive lease contracts and incremental debt rate:* the Company estimated the duration of lease contracts in which it acts as a lessee and which provide for renewal options. The Company's assessment of the existence or not of the reasonable certainty of exercising the option influences the estimate of the lease duration, significantly impacting the amount of the lease liability and the right of use assets on third party assets. When assessing the lease liability, the Company discounted the payments due using the marginal financing rate.
- *Provision for risks assessment*: the Company makes provisions mainly related to restoration charges. The estimate of the provisions is the result of a complex process that involves subjective judgments by management, as better detailed in the specific explanatory note.

Fair value measurement

In measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is divided into various hierarchical levels based on the input data used in the measurement techniques, as illustrated below.

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities;

- Level 2: input data other than the listed prices referred to in Level 1 that are observable for the asset or liability, both directly (prices) and indirectly (derived from prices);
- Level 3: input data relating to the asset or liability that are not based on observable market data.

If the input data used to measure the fair value of an asset or liability can be classified at different levels of the fair value hierarchy, the entire measurement is entered at the same hierarchy level as the lowest level input which is significant for the overall measurement.

The Company recognizes transfers between the various levels of the fair value hierarchy at the end of the period in which the transfer took place.

4. Accounting standards, amendments and interpretations not yet approved by the EU and applicable from financial years starting after January 1, 2019

At the date of these Carve-out financial statements, the following standards/amendments have been issued by the IASB but are still not applicable.

Document title	Issue date	Date of entry into force	Approval date	EU regulation and date of publication
Amendments to the references to the Conceptual Framework in the IFRS	mar-18	January 1, 2020	29-nov-19	(EU) 2019/2075 06-dic-19
Definition of materiality (Amendments to IAS 1 and IAS 8)	ott-18	January 1, 2020	29-nov-19	(EU) 2019/2014 10-dic-19
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	set-19	January 1, 2020	15-gen-20	(EU) 2020/34 16-gen-20

Standards not yet approved by the EU are listed below:

Document title	Issue date by the IASB	Date of entry into force of the IASB document	Expected approval date by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	gen-14	(**Note 1**)	(**Note 1**)
IFRS 17 Insurance Contracts	mag-17	January 1, 2021 (**Note 2**)	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	set-14	Deferred until the completion of the IASB project on the equity method	Postponed pending the conclusion of the IASB project on the equity method
Definition of business (Amendments to IFRS 3)	ott-18	January 1, 2020	mar-20
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	gen-20	January 1, 2022	TBD

(Note 1) IFRS 14 came into force on January 1, 2016, but the European Commission decided to suspend the approval process pending the new accounting standard on "rate-regulated activities".

(Note 2) It should be noted that in June 2019, the IASB published an exposure draft which includes some changes to IFRS 17 and the deferral of the entry into force of the new accounting standard to January 1, 2022.

Any impact of the new standards/additions on the Carve-out financial statements is still being assessed.

5. Financial risk management

The Company is exposed to the following risks: credit, liquidity and market.

Credit risk

The Company's exposure to credit risk consists of the potential losses that could derive from the failure of commercial counterparts to fulfill the obligations undertaken. Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors. The maximum theoretical exposure of the Company to credit risk is the book value of the trade receivables recorded in the financial statements. The other customers of the Company are the leading national mobile operators, including VOD ITA, with which the Company has entered into multi-year contracts to provide hosting services.

Therefore, the Company is exposed to the risk of concentration of revenues and to credit risk arising from the possibility that its commercial counterparts are not capable or able to meet their obligations. The possible default by one of its commercial counterparts could involve negative effects on the income, balance sheet, and financial situation of the Company. With regard to counterparty risk, formalized procedures to valuate and assess the reliability of commercial partners are adopted to manage the credit.

Liquidity risk

Liquidity risk is associated with the Company's ability to meet commitments deriving mainly from financial liabilities. Prudent management of the liquidity risk originating from the normal operations of the Company implies the maintenance of an adequate level of cash and cash equivalents and the availability of funds obtainable through an adequate amount of credit lines.

Market risk

The market risk consists in the possibility that changes of the interest and exchange rates or of the rating of the counterparts with which liquidity is utilized, could impact negatively on the value of the assets, liabilities, or expected cash flows. The Company operates exclusively in euros; therefore, it is not exposed to exchange rate risk.

Financial assets and liabilities by category

The table below shows the Company's financial assets and liabilities at December 31, 2019, on the basis of the categories contained in IFRS 9.

(thousands of euros)		12/31/2019			
		Amounts recorded in the financial statements pursuant to IFRS 9			
		Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in the income statement
ASSETS					
Current assets					
Trade and miscellaneous receivables and other current assets					
- of which trade receivables		141,683			
Total		141,683			
LIABILITIES					
Non-current liabilities					
Non-current financial liabilities					
- of which liabilities at amortized cost		(198,083)			
	a	*(198,083)*			
Current liabilities					
Current financial liabilities					
- of which liabilities at amortized cost		(77,989)			
Trade and miscellaneous payables and other current liabilities					
- of which liabilities at amortized cost		(21,544)			
	b	*(99,533)*			
Total	a+b	(297,616)			

The fair value of these financial assets and liabilities is deemed to approximate the related book value at December 31, 2019.

6. Notes on the statement of financial position

Non-current assets

6.1 Property, plant and equipment

At December 31, 2019, property, plant and equipment amounted to 173,382 thousand euros and are made up as shown in the table below:

(thousands of euros)		12/31/2019
Property, plant and equipment		
-	Plant and equipment	171,836
-	Construction in progress	1,546
Total		173,382

Changes in the period are shown below:

(thousands of euros)	Net carrying amount 01/01/2019	Amortization and depreciation	Net additions	Reclassification	Net carrying amount 12/31/2019
Plant and equipment	196,968	(51,136)	25,598	406	171,836
Construction in progress	1,952	-		(406)	1,546
Total	198,920	(51,136)	25,598	-	173,382

- *Plant and equipment*

Plant and equipment, equal to 171,836 thousand euros at December 31, 2019, relate to passive infrastructures functional to hosting radio transmission and reception equipment and mainly include:

- civil infrastructure and related works, including towers and poles;
- electrical equipment, including meters, batteries and power generators.

- *Construction in progress*

Construction in progress, equal to 1,546 thousand euros at December 31, 2019, refers to fixed assets related to the passive structures of Company's sites. These tangible assets remain recorded in the item in question until the date on which the asset is used. From that date, the tangible asset is reclassified in the item "Plant and equipment" and subject to the depreciation process.

6.2 Rights of use on third party assets and financial liabilities (current and non-current)

Rights of use

Assets for rights of use on third party assets, equal to 294,289 thousand euros at December 31, 2019, are recorded in relation to the application of IFRS 16 and relate to passive lease contracts on the Company's sites.

Financial liabilities

Current and non-current financial liabilities totaled 275,737 thousand euros at December 31, 2019, and entirely related to the application of IFRS 16 on passive lease contracts of the Company's sites.

Financial liabilities relating to lease contracts are measured at the present value of the residual lease payments on the date of adoption of the standard which are fixed for the entire duration of the lease contract. The duration of lease contracts includes all the non-cancelable periods for which the Company has the right to use the asset covered by the lease contract, as well as the periods relating to renewal options in favor of the Company, the exercise of which is deemed reasonably certain.

The discount rate used to measure the value of liabilities relating to lease contracts takes into account the country risk, the currency, the lease contract duration and the credit risk of the Group. The weighted average discount rate used to measure the value of liabilities relating to lease contracts in which the Group operates as a lessee is equal to 1.99% on January 1, 2019.

Current assets

6.3 Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets at December 31, 2019 are detailed in the table below:

(thousands of euros)	12/31/2019
Trade and miscellaneous receivables and other current assets	
- Trade receivables	141,683
- Other current assets	1,300
Total	**142,983**

Net trade receivables at December 31, 2019 amounted to 141,683 thousand euros

(thousands of euros)		12/31/2019
Trade receivables		
-	Receivables from customers	105,927
-	Receivables from VOD ITA	35,908
-	Bad debt provision	(152)
Total		141,683

The items receivables from customers and receivables from VOD ITA consists of:

- receivables for invoices issued equal to 32,719 thousand euros;
- receivables for invoices to be issued equal to 109,116 thousand euros.

The "bad debt provision" amounting to a negative 152 thousand euros reflects the expected losses over the life of the receivable calculated with available information. In determining the provision, the Company considered quantitative and qualitative information and analyzes, based on the historical experience of the Company, the receivables assessment and on forward-looking information indicative of expected developments.

- Other current assets

At December 31, 2019, other current assets, equal to 1,300 thousand euros, include prepaid expenses for TOSAP (tax for occupation of public spaces and areas) and stamp duty.

Equity and Liabilities

6.4 Equity

Equity was equal to 264,723 thousand euros at December 31, 2019.

The Company's share capital amounts to 10 thousand euros at December 31, 2019 and is entirely held by VOD EU.

The item "Carve-out contribution", equal to 121,191 thousand euros, represents the contribution from the Vodafone Group for the cash absorption generated by the activities during 2019.

Non-current liabilities

6.5 Employee benefits

The item in question includes the provision relating to severance indemnities (TFR) for Company employees. At December 31, 2019, "Employee benefits", equal to 1,303 thousand euros, shows the following composition and changes:

(thousands of euros)	01/01/2019	Increases/Present value	Purposes	12/31/2019
Provision for employee severance indemnities	(1,311)	(81)	89	(1,303)
Total	(1,311)	(81)	89	(1,303)

The value of these funds is calculated on an actuarial basis using the "unit credit projection" method.

6.6 Provisions for risks and charges

The provisions for risks and charges, equal to 39,873 thousand euros at December 31, 2019, shows the following composition and changes:

(thousands of euros)	01/01/2019	Increases/Present value	Purposes	12/31/2019
Provisions for restoration costs	(31,986)	(7,887)	-	(39,873)
Total	(31,986)	(7,887)	-	(39,873)

The provision represents the present value of the expected recovery charge that will be incurred when the underlying contract expires and/or is no longer renewed. The asset, equal to the initial liability, is included among tangible assets.

During the year, provisions made for restoration charges were 7,887 thousand euros, mainly due to the updating of the estimate process connected with the related calculation of the expected restoration charge.

6.7 Deferred tax liabilities provisions

Deferred tax liabilities are equal to 1,256 thousand euros at December 31, 2019 and mainly attributable to the temporary differences between the book value and the value recognized for tax purposes of depreciation.

The description of the differences that led to the recognition of deferred taxation is provided below:

(thousands of euros)		12/31/2019
Depreciation/amortization of assets		(4,080)
Assets for restoration costs		(7,200)
	IRES	**(11,280)**
Depreciation/amortization of assets		(1,184)
Assets for restoration costs		(1,269)
	IRAP	**(2,453)**
	Deferred tax liabilities	**(13,733)**
Provision for restoration costs		9,600
Right of use on third-party assets		1,008
	IRES	**10,608**
Provision for restoration costs		1,692
Right of use on third-party assets		177
	IRAP	**1,869**
	Deferred tax assets	**12,477**
Total		**(1,256)**

The IRES rate used for the measurement of deferred taxes for the year is 24%. The rate used for the measurement of deferred IRAP taxes is 4.23%.

Current liabilities

6.8 Trade and miscellaneous payables and other current liabilities

This item is equal to 22,979 thousand euros at December 31, 2019 and is made up as follows:

(thousands of euros)	12/31/2019
Trade and miscellaneous payables and other current liabilities	
- Trade payables and other payables	(12,131)
- Energy payables	(10,168)
- Other employee liabilities	(680)
Total	**(22,979)**

- Trade payables and other payables

“Trade payables and other payables”, equal to 12,131 thousand euros at December 31, 2019, relate to payables for purchases of plant and other operating activities, mainly related to routine tower maintenance. The item also includes payables for stamp duty of 755 thousand euros.

- Energy payables

"Energy payables", equal to 10,168 thousand euros at December 31, 2019, relate to payables for the supply of electricity at the Company's sites.

- Other employee liabilities

"Other employee liabilities" amounted to 680 thousand euros at December 31, 2019.

6.9 Income tax payables

"Income tax payables", equal to 4,449 thousand euros as at December 31, 2019, refer to the debt for taxes due on taxable income for the year net of any advance payments made and are payable within the following year.

6.10 Other Current financial liabilities

"Other current financial liabilities", equal to 334 thousand euros at December 31, 2019, refer to the payable to VOD ITA for the payment made by the latter to the Company's employees in relation to monthly salaries of December 2019 in the name and on behalf of Vodafone Towers.

7. Notes to the Income statement

7.1. Revenues

7.1.1 Revenues from third parties

The item includes the revenues attributable to the period and relate to services provided in the course of ordinary business.

The item Revenues from third parties, amounting to 61,649 thousand euros, refers essentially to hosting services on the towers included in the perimeter offered by the Company to Italian mobile operators. Relationships with these operators are regulated by long-term commercial agreements.

7.1.2 Revenues from Vodafone Italia S.p.A.

As of December 1, 2019, the start date of Vodafone Towers operations, revenues from VOD ITA are governed by a Master Service Agreement and include 23,612 thousand euros for revenues, essentially referring to hosting services on the towers included in the perimeter.

For the period between January 1, 2019 and November 30, 2019, the revenues that the Company would have accounted for if it had operated as an independent entity and in the event of retroactive application of the Master Service Agreement, amount to 257,419 thousand euros, distinct from services on existing sites occupied and to be occupied as defined by the Master Services Agreement. These revenues were calculated by dividing the Vodafone Towers S.r.l. towers into "X sites" and "Z sites" categories, as defined by the Master Service Agreement, and multiplying them by the relative unit prices in the Master Service Agreement.

7.2. Acquisition of goods and services

Acquisition of goods and services of 39,527 thousand euros in 2019, is made up as follows:

(thousands of euros)		12/31/2019
Acquisition of goods and services		
-	Electricity costs	(55,734)
-	Maintenance costs	(4,609)
-	Costs for lease of premises	(780)
-	Chargebacks for energy and ancillary costs charged to third parties	18,435
-	Chargebacks for energy and ancillary costs charged to VOD ITA	3,160
Total		(39,527)

Energy costs, equal to 55,734 thousand euros in 2019, relate to the costs incurred by the Company for the supply of electricity to towers.

Maintenance costs, equal to 4,609 thousand euros in 2019, refer to the costs incurred by the Company for the routine maintenance of towers and are governed by a bundle contract with an external supplier.

Costs for lease of premises, equal to 780 thousand euros in 2019, include the costs relating to the TOSAP (tax for occupation of public spaces and areas).

Chargebacks for energy and ancillary costs include the portion of energy and ancillary costs charged to third parties, for 18,435 thousand euros, and, of the portion accrued in December by Vodafone Towers S.r.l. to Vodafone Italia S.p.A, for 3,160 thousand euros.

For the period between January 1, 2019 and November 30, 2019, the best estimate of the chargebacks that the Company would have accounted for in accordance with the provisions of the Master Service Agreement amounts to approximately 40.5 million euros.

7.3 Employee benefits expenses

Employee benefits expenses amounted to 2,423 thousand euros in 2019 and reflect the organizational structure, which includes 64 employees at December 31, 2019. They can be subdivided into their respective categories, as follows:

Employees	12/31/2019
- Office Staff	54
- Middle Managers	6
- Senior Managers	4
Total headcount	64

7.4 Other operating expenses

The item amounted to 5,273 thousand euros and breaks down as follows:

(thousands of euros)	12/31/2019
Other operating expenses	
- Professional services	(2,066)
- Stamp duty	(1,698)
- Warehouse Services	(444)
- Insurance costs	(253)
- Other operating expenses	(812)
Total	(5,273)

Costs for professional services, equal to 2,066 thousand euros in 2019, relate to the costs for services rendered by employees of the Vodafone Group who are not employees of the Company, but who work in support of the Company's operations.

Costs for warehouse services from third parties, equal to 444 thousand euros in 2019, relate to the management of the warehouse outsourced to third parties.

7.5 Depreciation and amortization, gains/losses on disposals and impairment losses on non-current assets

Depreciation and amortization is equal to 139,116 thousand euros in 2019, and refers to the following category of tangible assets and rights of use on third party assets:

- Plant and equipment for 51,136 thousand euros
- Right of use on third-party assets for 87,980 thousand euros

7.6 Financial expenses

Financial expenses, equal to 8,776 thousand euros, mainly relate to interest expense on the financial liability of leases in relation to the application of IFRS 16.

7.7 Income taxes

Income taxes, equal to 3,193 thousand euros, include current taxes for 4,449 thousand euros relating to the result recorded by Vodafone Towers in the period from which the tax effects of the demerger took effect and deferred tax assets for 1,256 thousand euros.

The IRES rate used for the measurement of deferred taxes for the year was 24%. The IRAP rate used was 4.23%, determined considering the rates approved by the various Regions in which the company carries out its business, weighted based on the value of the net production achieved by the company in the same Regions.

8. Related Parties

Related parties are identified on the basis of the provisions of IAS 24. Transactions with related parties are mainly commercial in nature, and are related to transactions carried out under normal market conditions; nevertheless, there is no certainty that, if these transactions had been carried out with third parties, such parties would have negotiated and entered into the respective contracts, or performed the same transactions, at the same terms and conditions and in the same manner.

The effects of the transactions with related parties on the items of the statement of financial position at December 31, 2019, are shown below:

(thousands of euros)	Financial statement items at December 31, 2019	VOD ITA	Other related parties	Senior management	Total related parties	% of financial statement item
Other current financial liabilities	(334)	(334)			(334)	100%
Trade and miscellaneous receivables and other current assets	142,983	35,908			35,908	25%
Trade and miscellaneous payables and other current liabilities	(22,979)	(4,706)	(1,076)		(5,782)	25%

Payables to "Other related parties" refer to invoices to be received from Vodafone Procurement Company S.a.r.l..

The effects of related party transactions on the income statement items as at December 31, 2019 are as follows:

(thousands of euros)	Financial statement items at December 31, 2019	VOD ITA	Other related parties	Senior management	Total related parties	% of financial statement item
Revenues	85,261	23,612			23,612	28%
Acquisition of goods and services(*)	(39,527)	(1,356)			(1,356)	3%
Other operating expenses	(5,273)	(154)			(154)	3%
Employee benefits expenses	(2,423)	(36)			(36)	2%

(*) The item "Acquisitions of goods and services" includes the portion of energy and auxiliary costs accrued, in December 2019, by Vodafone Towers S.r.l. to Vodafone Italia S.p.A, for 3,160 thousand euros.

9. Notes on direction and coordination

In accordance with Article 2497 et seq. of the Italian Civil Code regarding transparency in the direction and coordination of the Company, it is noted that such activities are carried out by Vodafone Europe B.V..

10. Events subsequent to December 31, 2019

The main events are described in the "General Information" paragraph. No other significant events occurred after the closing of these Carve-out financial statements.