TIM S.p.A.
Form 6-K
May 22, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF MAY 2018

TIM S.p.A.

(Translation of registrant s name into English)

Via Gaetano Negri 1

20123 Milan, Italy

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F FORM 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

YES NO

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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ANNUAL FINANCIAL REPORT

2017

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This document has been translated into English for the convenience of the readers.

In the event of discrepancy, the Italian language version prevails.

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Report on Operations

TIM Group

THE TIM GROUP

THE BUSINESS UNITS

DOMESTIC

The Domestic Business Unit operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators.

Olivetti, which is now part of the Core Domestic business segment, operates in the area of office products and services for Information Technology.

INWIT S.p.A. operates in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators.

CORE DOMESTIC

- Consumer
- Business
- Wholesale
- Other (INWIT S.p.A. and support structures)

In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle Group

- Telecom Italia Sparkle S.p.A.
- South American subsidiaries

North American subsidiaries

European subsidiaries

BRAZIL

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

Tim Brasil Serviços e Participações S.A.

Tim Participações S.A.

TIM S.A. (formerly Intelig Telecom. Ltda)

Tim Celular S.A.

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BOARD OF DIRECTORS

Chairman	Arnaud Roy de Puyfontaine
Deputy Chairman	Giuseppe Recchi
Chief Executive Officer and General Manager	Amos Genish
Directors	Camilla Antonini (independent)
	Franco Bernabè (independent)
	Ferruccio Borsani (independent)
	Lucia Calvosa (independent)
	Francesca Cornelli (independent)
	Frédéric Crépin
	Dario Frigerio (independent)
	Félicité Herzog (independent)
	Anna Jones (independent)
	Marella Moretti (independent)
	Hervé Philippe
	Danilo Vivarelli (independent)
Secretary to the Board	Agostino Nuzzolo

BOARD OF STATUTORY AUDITORS

Chairman	Roberto Capone
Acting Auditors	Vincenzo Cariello Gabriella Chersicla Gianluca Ponzellini Ugo Rock

Alternate Auditors	Francesco Di Carlo Piera Vitali Riccardo Schioppo

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KEY OPERATING AND FINANCIAL DATA - TIM GROUP

Consolidated operating and financial data

(millions of euros)		2017	2016	2015	2014	2013
Revenues		19,828	19,025	19,719	21,574	23,443
EBITDA	(1)	7,790	8,002	7,006	8,785	9,574
EBIT before goodwill impairment loss		3,291	3,722	3,203	4,529	4,939
Goodwill impairment loss				(240)		(2,187)
EBIT	(1)	3,291	3,722	2,963	4,529	2,752
Profit (loss) before tax from continuing operations		1,777	2,799	453	2,350	570
Profit (loss) from continuing operations		1,287	1,919	50	1,420	(556)
Profit (loss) from Discontinued operations/Non-current assets held for sale			47	611	541	341
Profit (loss) for the year		1,287	1,966	661	1,961	(215)
Profit (loss) for the year attributable to Owners of the Parent		1,121	1,808	(70)	1,351	(659)
Capital expenditures		5,701	4,876	5,197	4,984	4,400

Consolidated financial position data

(millions of euros)	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Total Assets	68,783	70,446	71,268	71,596	70,264
Total Equity	23,783	23,553	21,249	21,584	20,071
- attributable to Owners of the Parent	21,557	21,207	17,554	18,068	16,985
- attributable to non-controlling interests	2,226	2,346	3,695	3,516	3,086
Total Liabilities	45,000	46,893	50,019	50,012	50,193

Total Equity and Liabilities		68,783	70,446	71,268	71,596	70,264
Share capital		11,587	11,587	10,650	10,634	10,604
Net financial debt carrying amount	(1)	26,091	25,955	28,475	28,021	27,942
Adjusted net financial debt	(1)	25,308	25,119	27,278	26,651	26,807
Adjusted net invested capital	(2)	49,091	48,672	48,527	48,235	46,878
Debt Ratio (Adjusted net financial debt/Adjusted net invested capital)		51.6%	51.6%	56.2%	55.3%	57.2%

Consolidated profit ratios

		2017	2016	2015	2014	2013
EBITDA/Revenues	(1)	39.3%	42.1%	35.5%	40.7%	40.8%
EBIT/Revenues (ROS)	(1)	16.6%	19.6%	15.0%	21.0%	11.7%
Adjusted Net Financial Debt/EBITDA	(1)	3.2	3.1	3.9	3.0	2.8

(1) Details are provided under Alternative Performance Measures .
(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

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Headcount, number in the Group at year end [1]

(number)	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	59,429	61,229	65,867	66,025	65,623
Headcount relating to Discontinued operations/Non-current assets held for sale			16,228	16,420	16,575

Headcount, average number in the Group[1]

(equivalent number)	2017	2016	2015	2014	2013
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	54,946	57,855	61,553	59,285	59,527
Headcount relating to Discontinued operations/Non-current assets held for sale		2,581	15,465	15,652	15,815

Financial performance measures

TIM S.p.A.

(euros)		2017	2016	2015
Share prices (December average)				
- Ordinary		0.73	0.79	1.16
- Savings		0.60	0.64	0.98
Dividends per share	(2)			
- Ordinary				
- Savings		0.0275	0.0275	0.0275
Pay Out Ratio	(2) (*)	9%	10%	45%

Market capitalization (in million euros)		14,779	15,901	21,525
Market to Book Value	(**)	0.74	0.84	1.34
Dividend Yield (based on December average)	(2) (***)			
- Ordinary				
- Savings		4.55%	4.27%	2.81%

TIM Group

(euros)		2017	2016	2015
Basic and Diluted Earnings Per Share	ordinary shares	0.05	0.08	0.00
Basic and Diluted Earnings Per Share	savings shares	0.06	0.09	0.00

(1) Includes employees with temp work contracts.
(2) For 2017, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting to be held on April 24, 2018. For all periods, the reference index was assumed to be the Parent s Earnings, calculated by excluding Non-recurring items (as detailed in the Note Significant non-recurring events and transactions in the Separate Financial Statements of TIM S.p.A. at December 31, 2017).
(*) Dividends paid in the following year/Profit for the year.
(**) Capitalization/Equity of TIM S.p.A..
(***) Dividends per share/Share prices.

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Financial highlights

In terms of economic and financial performance in 2017:

Consolidated revenues amounted to 20 billion euros, up by 4.2% on 2016 (+2.7% in organic terms). The figure for the fourth quarter of 2017 showed growth of 1.2% (+2.8% in organic terms).

EBITDA amounted to 7.8 billion euros, down by 2.6% on 2016 (-3.7% in organic terms). The organic EBITDA margin came to 39.3%, 2.6 percentage points lower than in 2016. EBITDA in 2017 was pulled down by non-recurring expenses for a total of 883 million euros (198 million euros in 2016 at constant exchange rates), without which the organic change in EBITDA would have been +4.6% (+382 million euros), with an EBITDA margin of 43.7%, up by 0.7 percentage points compared to 2016.

EBITDA for the fourth quarter of 2017 amounted to 1.6 billion euros (2.1 billion euros in 2016). In organic terms, and without the impact of the above-mentioned non-recurring expenses, the change would have been an increase of +4.1%.

EBIT amounted to 3.3 billion euros, down by 11.6% compared to 2016 (-12.1% in organic terms), as a result of the negative impact of non-recurring net expenses of 913 million euros (185 million euros in 2016 at constant exchange rates), without which the organic change in EBIT would have been +6.9%.

EBIT for the fourth quarter of 2017 amounted to 457 million euros (954 million euros in the fourth quarter of 2016). In organic terms and without non-recurring net expenses, the change from the fourth quarter of 2016 would have been +12.5%.

Profit for the year attributable to Owners of the Parent amounted to 1.1 billion euros (1.8 billion euros in 2016). On a like-for-like basis i.e. without including the impact of non-recurring net expenses and, in 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond converted into TIM shares profit for 2017 would have been approximately 270 million euros higher than the figure for 2016.

Capital expenditures for 2017 amounted to 5,701 million euros (4,876 million euros in 2016) and included the outlay of 630 million euros for the renewal of the user rights to the 900 MHz and 1800 MHz (GSM) frequencies by the Domestic Business Unit. In the Domestic Business Unit, the innovation component of total network investments rose to 63% (+6.3 percentage points compared to 2016) thanks to the selective approach taken to investments, which focused on identifying projects delivering higher returns and targeted at raising levels of UBB coverage through innovation or transformation.

Adjusted net financial debt amounted to 25,308 million euros at December 31, 2017, up by 189 million euros compared December 31, 2016 (25,119 million euros). The positive performance of business operations almost entirely absorbed the cash requirements relating to income taxes, which were much higher than in 2016, the outlay of 630 million euros for the renewal, as reported earleir, of user rights to domestic mobile telephone frequencies, and the payment of 257 million euros by the Brazil Business Unit to the consortium for the clean-up of the 700 MHz spectrum, for which the business unit purchased user rights in 2014.

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Financial highlights for the year

(millions of euros)		2017	2016	% Change Reported	% Change Organic
Revenues		19,828	19,025	4.2	2.7
EBITDA	(1)	7,790	8,002	(2.6)	(3.7)
EBITDA Margin		*39.3%*	*42.1%*	*(2.8)pp*	
Organic EBITDA Margin		*39.3%*	*41.9%*	*(2.6)pp*	
EBIT	(1)	3,291	3,722	(11.6)	(12.1)
EBIT Margin		*16.6%*	*19.6%*	*(3.0)pp*	
Organic EBIT Margin		*16.6%*	*19.4%*	*(2.8)pp*	
Profit (loss) from Discontinued operations/Non-current assets held for sale			47		
Profit (loss) for the year attributable to Owners of the Parent		1,121	1,808	(38.0)	
Capital expenditures (CAPEX)		5,701	4,876	16.9	

		12/31/2017	12/31/2016	Change Amount
Adjusted net financial debt	(1)	25,308	25,119	189

Financial highlights for the fourth quarter

(millions of euros)		4th Quarter 2017	4th Quarter 2016	% Change Reported	% Change Organic
Revenues		5,149	5,086	1.2	2.8
EBITDA	(1)	1,577	2,124	(25.8)	(25.1)
EBITDA Margin		*30.6%*	*41.8%*		
Organic EBITDA Margin		*30.6%*	*42.0%*		

EBIT	(1)	457	954	(52.1)	(52.0)
EBIT Margin		*8.9%*	*18.8%*		
Organic EBIT Margin		*8.9%*	*19.0%*		
Profit (loss) for the period		157	356		
Profit (loss) for the period attributable to owners of the Parent		88	313		

Details are provided under Alternative Performance Measures .

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Non-recurring events

In the years 2017 and 2016, the TIM Group recognized non-recurring net operating expenses connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. They include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

In detail:

(millions of euros)	2017	2016
Non-recurring net expenses		
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	10	2
Employee benefits expenses (*)		
Expenses related to restructuring and rationalization and other expenses	697	160
Sundry expenses and provisions		
Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	176	36
Impact on EBITDA	883	198
(Gain)/loss from Brazil Towers disposal (*)		(13)
Impairment losses on intangible assets	30	
Impact on EBIT	913	185

(*) The 2016 value of the Brazil Business Unit is stated at constant exchange rates (average 2017 exchange rate). The non-recurring component of the cost of labor at historical exchange rates amounted to 14 million euros, while the gain realized on the disposal of telecommunication towers amounted to 12 million euros.

Non-recurring expenses in 2017 mainly included provisions connected with the commencement of the new company restructuring plan for TIM S.p.A., which will unfold over the entire period of the 2018 2020 Industrial Plan and is designed to support the digitization process by drawing on all measures provided by law. Specifically, the plan will involve, *inter alia*, the application of article 4(1 7) of Law 92 of June 28, 2012 (the Fornero Law) for executive and non-executive personnel (which provides for early retirement arrangements), as well as the use of measures for economic sustainability.

Non - Financial highlights

The obligations laid down in Legislative Decree 254/2016, regarding the disclosure of sensitive information of a non-financial nature and on diversity, have been the object of reporting by TIM Group since 1997, the year in which the Group published its first Social Report , subsequently extended to cover environmental issues.

The current Sustainability Report follows a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is based on the main reference standard for Sustainability Reporting and on the principles (inclusivity, materiality, responsiveness) of the AA1000 AccountAbility Principles Standard (APS 2008), adopted by the Group as of the 2009 Financial Statements.

The materiality matrix for 2017, which summarizes the point of view of the Company and the stakeholders, also identifies the Sustainable Development Goals (SDGs) to which the Group believes it can make an appreciable contribution through the digitalization of the Country, social inclusion and the protection of human rights, improving the sustainability of the value chain and combating climate change.

Such non-financial reporting stands alongside the company s positioning in major sustainability indices, which in 2017 saw the TIM Group included, for the 14th consecutive year, in the Dow Jones Sustainability Indices World (DJSI World) and Europe (DJSI Europe), its entry into the Euronext Vigeo World 120 index, and its inclusion in the indices Euronext Vigeo, Eurozone 120 and Euronext Vigeo Europe 120.

Information on the TIM Group s contribution to sustainability during 2017 is provided below.

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CONSOLIDATED PERFORMANCE

Revenues

Revenues amounted to 19,828 million euros in 2017, 4.2% higher in comparison with 2016 (19,025 million euros). The increase of 803 million euros was driven by the positive performance of the Domestic Business Unit (348 million euros) and the Brazil Business Unit (455 million euros, inclusive of a positive exchange rate effect of 284 million euros).

In terms of organic change, consolidated revenues rose by 2.7% (+526 million euros), and were calculated as follows:

(millions of euros)	2017	2016	Change amount	Change %
REPORTED REVENUES	19,828	19,025	803	4.2
Foreign currency financial statements translation effect		277	(277)	
Changes in the scope of consolidation				
ORGANIC REVENUES	19,828	19,302	526	2.7

Exchange rate fluctuations [1] were essentially attributable to the Brazil Business Unit. There were no material changes in the scope of consolidation [2].

The performance of revenues in each quarter of 2017 is shown below, with comparative data, in percentage terms, provided for the same periods of the previous year.

Consolidated revenues for the fourth quarter of 2017 increased by 63 million euros compared to the fourth quarter of 2016 (+1.2%); in organic terms, the percentage change, without the exchange rate effect relating essentially to the Brazil Business Unit, was +2.8%.

The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.12946 in 2017 and 1.10666 in 2016 for the US dollar. For the Brazilian real, the average exchange rates used were 3.60584 in 2017 and 3.85935 in 2016. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.

The change in the scope of consolidation has been calculated by excluding the contribution of the companies that have exited from the comparison figure and adding in the estimated contribution of any companies entering the scope of consolidation.

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The breakdown of revenues for 2017 by operating segment is shown below, with comparative data provided for 2016.

(millions of euros)	2017		2016		Change		
		% of total		% of total	amount	%	% organic
Domestic	15,354	77.4	15,006	78.9	348	2.3	2.4
Core Domestic	*14,249*	*71.9*	*13,926*	*73.2*	*323*	*2.3*	*2.3*
International Wholesale	*1,349*	*6.8*	*1,351*	*7.1*	*(2)*	*(0.1)*	*0.4*
Brazil	4,502	22.7	4,047	21.3	455	11.2	4.0
Other Operations			11	0.1	(11)		
Adjustments and eliminations	*(28)*	*(0.1)*	*(39)*	*(0.3)*	*11*		
Consolidated Total	19,828	100.0	19,025	100.0	803	4.2	2.7

EBITDA

EBITDA totaled 7,790 million euros (8,002 million euros in 2016), showing a drop of 212 million euros (-2.6%); the EBITDA margin was 39.3% (42.1% in 2016; -2.8 percentage points).

Organic EBITDA was down by 303 million euros (-3.7%) compared to 2016, with a drop in the organic EBITDA margin of 2.6 percentage points, from 41.9% in 2016 to 39.3% in 2017.

The TIM Group recorded non-recurring operating expenses totaling 883 million euros for 2017 (198 million euros in 2016, at constant exchange rates), mainly connected with corporate restructuring and reorganization.

Excluding the expenses, EBITDA would have grown by 4.6% (+382 million euros), with an EBITDA margin of 43.7%, up by 0.7 percentage points compared to 2016. For further details, see the Note Significant non-recurring events and transactions in the Consolidated Financial Statements as at December 31, 2017 of the TIM Group.

Organic EBITDA is calculated as follows:

(millions of euros)	2017	2016	Change amount	Change %
REPORTED EBITDA	7,790	8,002	(212)	(2.6)
Foreign currency financial statements translation effect		91	(91)	
Changes in the scope of consolidation				

ORGANIC EBITDA	7,790	8,093	(303)	(3.7)
of which non-recurring income/(expenses)	(883)	(197)	(686)	
Foreign currency non-recurring income/(expenses) translation effect		(1)	1	
ORGANIC EBITDA excluding non-recurring component	8,673	8,291	382	4.6

Exchange rate fluctuations related almost entirely to the Brazil Business Unit.

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The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

The performance of EBITDA in each quarter of 2017, stated in millions of euros, is shown below.

EBITDA for the fourth quarter of 2017 amounted to 1,577 million euros, down by 547 million euros (-25.8%) on the same period of the previous year (2,124 million euros). The EBITDA margin came to 30.6% (41.8% in the fourth quarter of 2016).

In organic terms, and without non-recurring expenses (661 million euros in the fourth quarter of 2017 and 43 million euros in the same period of 2016, at constant exchange rates), the change would have been an increase of +4.1%, with an EBITDA margin of 43.5% (42.9% in the fourth quarter of 2016).

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The breakdown of EBITDA by operating segment in 2017 compared to 2016 is shown below, together with the EBITDA margin.

	2017		2016		Change		
(millions of euros)		% of total		% of total	amount	%	% organic
Domestic	6,171	79.2	6,698	83.7	(527)	(7.9)	(7.8)
EBITDA Margin	*40.2*		*44.6*			*(4.4)pp*	*(4.4)pp*
Brazil	1,635	21.0	1,325	16.6	310	23.4	15.3
EBITDA Margin	*36.3*		*32.7*			*3.6 pp*	*3.6 pp*
Other Operations	(16)	(0.2)	(18)	(0.2)	2		
Adjustments and eliminations			*(3)*	*(0.1)*	*3*		
Consolidated Total	7,790	100.0	8,002	100.0	(212)	(2.6)	(3.7)
EBITDA Margin	*39.3*		*42.1*			*(2.8)pp*	*(2.6)pp*

EBITDA was particularly impacted by the change in the line items analyzed below:

Acquisition of goods and services (8,388 million euros; 7,793 million euros in 2016):

(millions of euros)	2017	2016	Change
Acquisition of goods	1,863	1,614	249
Revenues due to other TLC operators and interconnection costs	2,063	2,000	63
Commercial and advertising costs	1,386	1,231	155
Power, maintenance and outsourced services	1,222	1,220	2
Rent and leases	739	702	37
Other service expenses	1,115	1,026	89
Total acquisition of goods and services	8,388	7,793	595
% of Revenues	*42.3*	*41.0*	*1.3pp*

The rise in Acquisition of goods and services was driven by the Domestic Business Unit, for a total of 450 million euros, primarily by the acquisition of products for resale. The Brazil Business Unit reported an increase of 140 million euros, attributable entirely to the exchange rate effect, without which the item would have shown a drop of around

3 million euros.

Employee benefits expenses (3,626 million euros; 3,106 million euros in 2016):

(millions of euros)	2017	2016	Change
Employee benefits expenses - Italy	3,248	2,744	504
Ordinary employee expenses and costs	2,551	2,600	(49)
Restructuring and other expenses	697	144	553
Employee benefits expenses Outside Italy	378	362	16
Ordinary employee expenses and costs	378	347	31
Restructuring and other expenses		15	(15)
Total employee benefits expenses	3,626	3,106	520
% of Revenues	*18.3*	*16.3*	*2.0pp*

The main factors driving the increase of 520 million euros were:

a decrease of 49 million euros in the Italian component of ordinary employee expenses, partly as a result of the reduction in the average salaried workforce (-1,517 average employees). By contrast, in 2016, following the non-fulfillment of the conditions for the payment of the Results Bonus to employees, related accruals made in the 2015 financial statements were reversed;

the recognition of a total of 697 million euros of non-recurring expenses (provisions to Employee benefits and sundry expenses), of which 674 million euros connected with the commencement of the new company restructuring plan for TIM S.p.A., which will unfold over the entire period of the 2018 2020 Industrial Plan and is designed to support the digitization process by drawing on all measures provided by law. Specifically, the plan will involve, *inter alia*, the application of article 4(1 7) of Law 92 of June 28, 2012 (the Fornero Law) for executive and non-executive personnel (which provides for early retirement arrangements), as well as the use of measures for economic sustainability.

In 2016, a total of 144 million euros in provisions for non-recurring expenses were allocated for the application of Article 4 of the Fornero Law and the management restructuring plan.

an increase of 16 million euros in the component outside Italy of employee benefits expenses; the lower cost of labor connected with the drop in the average salaried workforce outside Italy (-1,392 average employees) was offset by both local wage growth and the exchange rate effect, referring essentially to the Brazil Business Unit, which resulted in around 24 million euros of higher costs. In the previous year, the Brazil Business Unit had recognized a total of 16 million euros (at constant exchange rates) in non-recurring

expenses relating to the implementation of the company restructuring plan.

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Other operating income (523 million euros; 311 million euros in 2016):

(millions of euros)	2017	2016	Change
Late payment fees charged for telephone services	59	60	(1)
Recovery of employee benefit expenses, purchases and services rendered	22	33	(11)
Capital and operating grants	51	36	15
Damage compensation, penalties and sundry recoveries	35	24	11
Partnership agreements	116	71	45
Release of provisions and other payable items, other income	240	87	153
Total	523	311	212

Other income consisted of the impacts of contribution fees resulting from partnership agreements signed with leading technology suppliers. These agreements are aimed at developing the collaboration between the parties, in order to strengthen and stabilize the business and industrial relationship over time, to actively contribute to TIM s marketing plan for the development and use of several strategic services in Italy and in Brazil. The item also included insurance indemnities and the impact of the revised estimate of liabilities towards customers and suppliers.

Other operating expenses (1,208 million euros; 1,083 million euros in 2016):

(millions of euros)	2017	2016	Change
Write-downs and expenses in connection with credit management	400	335	65
Provision charges	228	144	84
TLC operating fees and charges	356	373	(17)
Indirect duties and taxes	111	100	11
Penalties, settlement compensation and administrative fines	33	44	(11)
Association dues and fees, donations, scholarships and traineeships	15	18	(3)
Sundry expenses	65	69	(4)
Total	1,208	1,083	125

Other operating expenses included 176 million euros of non-recurring expenses (36 million euros in 2016), incurred entirely by the Domestic Business Unit. The Brazil Business Unit recorded a drop of 4 million euros (including an exchange rate effect of 35 million euros, without which the item would have shown a decrease of 39 million euros), due to lower provisions for risks and lower operating expenses for telecommunications activities. The drop was driven by lower provision charges and lower contribution fees for telecommunications operations.

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Depreciation and amortization

Details are as follows:

(millions of euros)	2017	2016	Change
Amortization of intangible assets with a finite useful life	1,793	1,743	50
Depreciation of property, plant and equipment owned and leased	2,680	2,548	132
Total	4,473	4,291	182

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

In 2017, the item posted a positive 11 million euros, connected with the ordinary asset renewal process.

In 2016, this item amounted to 14 million euros and included the non-recurring gain of 44 million reais (approximately 12 million euros at the 2016 average exchange rate) realized by the Brazil Business Unit from the sale of two further tranches of telecommunications towers to American Tower do Brasil.

Net impairment losses on non-current assets

The item amounted to 37 million euros in 2017 (3 million euros in 2016) and referred primarily to impairment losses on intangible assets.

In preparing the Annual Report for 2017, the TIM Group carried out an impairment test on the goodwill. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amounts of Goodwill allocated to the Group s individual Cash Generating Units.

EBIT

EBIT totaled 3,291 million euros (3,722 million euros in 2016), a drop of 431 million euros (-11.6%) compared to 2016; the EBIT margin was 16.6% (19.6% in 2016, -3.0 percentage points).

Organic EBIT was down by 455 million euros (-12.1%), with an organic EBIT margin of 16.6% (19.4% in 2016).

EBIT for 2017 reflected the negative impact of non-recurring net expenses, including impairment losses on assets totaling 913 million euros (185 million euros in 2016, at constant exchange rates). Without these expenses, the organic change in EBIT would have been a positive 273 million euros (+6.9%), with an EBIT margin of 21.2% (up by 0.8 percentage points compared to 2016).

Organic EBIT is calculated as follows:

(millions of euros)	2017	2016	Change amount	Change %
REPORTED EBIT	3,291	3,722	(431)	(11.6)
Foreign currency financial statements translation effect		24	(24)	
Changes in the scope of consolidation				
ORGANIC EBIT	3,291	3,746	(455)	(12.1)
of which non-recurring income/(expenses)	(913)	(185)	(728)	
Foreign currency non-recurring income/(expenses) translation effect				
ORGANIC EBIT excluding non-recurring component	4,204	3,931	273	6.9

Exchange rate fluctuations related to the Brazil Business Unit.

EBIT for the fourth quarter of 2017 amounted to around 457 million euros (954 million euros in the fourth quarter of 2016).

In organic terms, and without non-recurring net expenses (661 million euros in the fourth quarter of 2017 and 41 million euros in the same period of 2016, at constant exchange rates), the change on the fourth quarter of 2016 would have been an increase of +12.5%, with an EBITDA margin of 21.7% (19.8% in the fourth quarter of 2016).

Share of profits (losses) of associates and joint ventures accounted for using the equity method

In 2017, this item amounted to a negative 1 million euros. In 2016, the item showed a negative 23 million euros and referred essentially to the write-down of the investment held in Alfiere S.p.A..

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Income/(expenses) from investments

In 2017, this item amounted to an expense of 18 million euros and essentially included the allocation to the income statement of the Reserve for exchange differences on translating foreign operations for the investee company Tierra Argentea S.A., the liquidation of which has now been completed.

In 2016, this item amounted to 7 million euros and mainly included the dividends paid to TIM S.p.A. by the third-party company Emittenti Titoli.

Finance income (expenses), net

Net finance expenses grew by 588 million euros, rising from 907 million euros in 2016 to 1,495 million euros in 2017.

The balance recorded in 2017 was mainly affected by the absence of the positive impact, of 565 million euros, relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros and converted in November 2016 (Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A.).

Income tax expense

Income tax expense amounted to 490 million euros, down by 390 million euros on 2016 (880 million euros), in part thanks to tax facilities under laws in force and the lower taxable base of the Parent TIM S.p.A.

Profit (loss) for the year

This item breaks down as follows:

(millions of euros)	2017	2016
Profit (loss) for the year	1287	1,966
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	1,121	1,811
Profit (loss) from Discontinued operations/Non-current assets held for sale		(3)
Profit (loss) for the year attributable to Owners of the Parent	1,121	1,808
Non-controlling interests:		
Profit (loss) from continuing operations	166	108
		50

Profit (loss) from Discontinued operations/Non-current assets held for sale		
Profit (loss) for the year attributable to Non-controlling interests	166	158

Profit for 2017 attributable to Owners of the Parent amounted to 1,121 million euros (1,808 million euros in 2016) and was impacted by non-recurring net expenses of 714 million euros. On a like-for-like basis i.e. without including the non-recurring items and, in 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond Profit attributable to the Owners of the Parent for 2017 would have been around 270 million euros higher than the figure for the same period of the previous year.

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FINANCIAL AND OPERATING HIGHLIGHTS OF THE BUSINESS UNITS OF THE TIM GROUP

DOMESTIC

(millions of euros)	2017	2016	Change amount	%	% organic
Revenues	15,354	15,006	348	2.3	2.4
EBITDA	6,171	6,698	(527)	(7.9)	(7.8)
EBITDA Margin	*40.2*	*44.6*		*(4.4)pp*	*(4.4)pp*
EBIT	2,772	3,376	(604)	(17.9)	(17.9)
EBIT Margin	*18.1*	*22.5*		*(4.4)pp*	*(4.4)pp*
Headcount at year end (number)	49,851	51,280	(1,429)	(2.8)	

(millions of euros)	4th Quarter 2017	4th Quarter 2016	Change amount	%	% organic
Revenues	4,042	3,970	72	1.8	2.0
EBITDA	1,116	1,703	(587)	(34.5)	(34.4)
EBITDA Margin	*27.6*	*42.9*		*(15.3)pp*	*(15.3)pp*
EBIT	265	801	(536)	(66.9)	(66.9)
EBIT Margin	*6.6*	*20.2*		*(13.6)pp*	*(13.6)pp*

Fixed

	12/31/2017	12/31/2016	12/31/2015
Physical accesses at period end (thousands) [1]	18,995	18,963	19,209
	11,044	*11,285*	*11,742*

of which retail physical accesses at period end (thousands)			
Broadband accesses at period end (thousands) [2]	10,154	9,206	8,890
of which Retail broadband accesses at period end (thousands)	*7,641*	*7,191*	*7,023*
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection)	114.6	114.4	114.3
access and carrier network in optical fiber (millions of km - fiber)	14.3	12.6	10.4
Total traffic:			
Minutes of traffic on fixed-line network (billions):	64.0	69.1	76.9
Domestic traffic	50.7	55.6	62.5
International traffic	13.3	13.5	14.4
Broadband volumes (PBytes) [3]	7,848	5,774	4,126

(1) Does not include full-infrastructured OLOs and Fixed Wireless Access (FWA).
(2) Does not include LLU and NAKED, satellite and full-infrastructured OLOs and FWA.
(3) DownStream and UpStream traffic volumes.

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Mobile

	12/31/2017	12/31/2016	12/31/2015
Lines at period end (thousands) (1)	30,755	29,617	30,007
Change in lines (%)	3.8	(1.3)	(1.1)
Churn rate (%) (2)	26.2	22.8	23.4
Total traffic:			
Outgoing retail traffic (billions of minutes)	51.4	44.9	43.6
Incoming and outgoing retail traffic (billions of minutes)	78.1	69.6	66.1
Browsing traffic (PBytes) (3)	417.5	258.5	182.6
Average monthly revenues per line (in euros) - ARPU (4)	12.5	12.4	12.1

(1) The figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.
(2) 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.
(3) National traffic excluding roaming.
(4) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

Revenues

The performance of revenues in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

Domestic revenues 2017 by quarter

(% change)

Revenues for 2017 came to 15,354 million euros, showing an increase of 348 million euros (+2.3%) on 2016 and confirming the progressive recovery begun in the previous year. The fourth quarter recorded growth of +1.8% compared to the same period of 2016, showing improvement on the performance of the previous quarter (+0.8%).

Revenues from services totaled 14,000 million euros, up by 122 million euros (+0.9%) on 2016 and showing stronger growth than for total revenues. The figure recorded growth of 2.1% year on year in the fourth quarter, posting the strongest performance in over 10 years, driven by growth in the customer base of both the Mobile and Fixed Broadband segments and the resilience of ARPU levels, buoyed by growth in the penetration of ultra-broadband connectivity services (Fiber and LTE) and digital and ICT services.

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Domestic Fixed 2017 by quarter
(% change)

Domestic Mobile 2017 by quarter
(% change)

In detail:

revenues from services in the Fixed-line market remained largely stable compared to 2016 at 9,952 million euros (-0.1%), but showed major recovery and improvement in the fourth quarter of 2017 (+1.2% compared to the same period of 2016). The natural decline in revenues from traditional voice services (-279 million euros), due to falling traditional accesses and the cut in regulated prices for certain wholesale services (-72 million euros), was more than offset by higher revenues from ICT solutions (+56 million euros, +9%) and, above all, by higher revenues from innovative data connectivity services (+284 million euros, +15%), driven by growth in the Ultra-Broadband customer base (+1.2 million on 2016), which reached a total of 2.1 million customers (3.1 million including wholesale lines).

revenues from Mobile services came to 4,655 million euros, an increase of 75 million euros compared to the previous year (+1.6%). Growth was driven by the positive competitive performance, which led to growth in the customer base without diluting ARPU levels. Growth in the previous three quarters was confirmed in the fourth quarter (+0.5% compared to the fourth quarter of 2016), despite the impact of new roaming rules in the European Union.

Revenues from product sales, including the change in work in progress, amounted to 1,354 million euros in 2017 (+226 million euros compared to 2016) and reflected growth in sales of smartphones and other connected devices (smart TVs, Smart Home products, modems, set-top boxes, etc.).

EBITDA

EBITDA for the Domestic Business Unit totaled 6,171 million euros in 2017, down by 527 million euros compared to 2016 (-7.9%), with an EBITDA margin of 40.2% (-4.4 percentage points compared to the previous year). The figure for 2017 was brought down by non-recurring expenses totaling 882 million euros (182 million euros in the previous year), relating to the corporate restructuring and reorganization expenses reported earlier, as well as disputes and business transactions, which peaked in the fourth quarter of 2017.

Without those expenses, the organic change in EBITDA would have posted growth of 2.5%, with an EBITDA margin of 45.9%, in line with the 2016 figure, despite the higher share of revenues from products, which have lower margins than revenues from services.

EBITDA was boosted by the positive performance in sales, and hence in revenues, as well as by the cost optimization plan, which lowered industrial and general operating costs without reducing support for sales drives.

Organic EBITDA is calculated as follows:

(millions of euros)	2017	2016	Change amount	Change %
REPORTED EBITDA	6,171	6,698	(527)	(7.9)
Foreign currency financial statements translation effect		(2)	2	
Changes in the scope of consolidation				
ORGANIC EBITDA	6,171	6,696	(525)	(7.8)
of which non-recurring income/(expenses)	(882)	(182)	(700)	
ORGANIC EBITDA excluding non-recurring component	7,053	6,878	175	2.5

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The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

Domestic EBITDA 2017 by quarter

(% change)

Other income amounted to 471 million euros, showing an increase of 212 million euros compared to 2016. This item includes contribution fees resulting from partnership agreements, insurance indemnities and the impact of the revised estimate of liabilities towards customers and suppliers.

The changes in the main cost items are shown below:

(millions of euros)	2017	2016	Change
Acquisition of goods and services	6,235	5,785	450
Employee benefits expenses	3,266	2,759	507
Other operating expenses	704	574	130

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The Acquisition of goods and services rose by 450 million euros compared to the previous year and was broken down as follows:

(millions of euros)	2017	2016	Change
Acquisition of goods	1,628	1,352	276
Revenues due to other TLC operators and interconnection costs	1,603	1,541	62
Commercial and advertising costs	751	656	95
Power, maintenance and outsourced services	951	982	(31)
Rent and leases	427	444	(17)
Other service expenses	875	810	65
Total acquisition of goods and services	6,235	5,785	450
% of Revenues	*40.6*	*38.6*	*2.0pp*

Employee benefits expenses totaled 3,266 million euros, up by 507 million euros, substantially due to the same factors that affected employee benefits expenses at Group level, details of which can be found in the relevant section;

Other operating expenses, amounting to 704 million euros, were up by 130 million euros.
The breakdown of the item is reported in the table below:

(millions of euros)	2017	2016	Change
Write-downs and expenses in connection with credit management	313	266	47
Provision charges	155	51	104
TLC operating fees and charges	55	54	1
Indirect duties and taxes	91	94	(3)
Penalties, settlement compensation and administrative fines	33	44	(11)
Association dues and fees, donations, scholarships and traineeships	13	16	(3)
Sundry expenses	44	49	(5)

Total	704	574	130

EBIT

EBIT for the Domestic Business Unit totaled 2,772 million euros in 2017 (3,376 million euros in 2016), showing a drop of 604 million euros (-17.9%) and an EBIT margin of 18.1% (22.5% in 2016).

EBIT was pulled down in 2017 by non-recurring expenses totaling 912 million euros (182 million euros in 2016).

Without these expenses, the organic change in EBIT would have been 3.6%, with an EBIT margin of 24.0%.

The EBIT performance reflected the increase in depreciation and amortization (50 million euros).

Organic EBIT is calculated as follows:

			Change	
(millions of euros)	2017	2016	amount	%
REPORTED EBIT	2,772	3,376	(604)	(17.9)
Foreign currency financial statements translation effect		(1)	1	
Changes in the scope of consolidation				
ORGANIC EBIT	2,772	3,375	(603)	(17.9)
of which non-recurring income/(expenses)	(912)	(182)	(730)	
ORGANIC EBIT excluding non-recurring component	3,684	3,557	127	3.6

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Financial highlights of the Domestic Cash Generating Units

The main financial and operating highlights of the Domestic Business Unit are reported according to two Cash Generating units (CGU), as defined by IAS 36:

Core Domestic: includes all telecommunications activities pertaining to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments established on the basis of the customer centric organizational model are as follows:

Consumer: the segment consists of all Fixed and Mobile voice and Internet services and products managed and developed for individuals and families and of public telephony; customer care, operating credit support, loyalty and retention activities, sales within its remit, and administrative management of customers; the segment includes the companies 4GR, Persidera and Noverca.

Business: the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets. The segment includes the companies Olivetti, Telsy, Trust Technologies and Alfabook.

Wholesale: the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed-line and Mobile telecommunications operators in the domestic market and Open Access operations connected with delivery and assurance processes for customer services. The segment includes the companies TN Fiber, Flash Fiber, TIM San Marino and Telefonia Mobile Sammarinese.

Other (INWIT S.p.A. and support structures): includes:

INWIT S.p.A.: from April 2015, the company has been operating within the Operations area in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators;

Other Operations units: covering technological innovation and development, engineering, construction and operating processes for network infrastructures, IT, real estate properties and plant engineering;

Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group, also offered to the market and other Business Units.

International Wholesale Telecom Italia Sparkle group: includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

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Key results for 2017 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to the same period of 2016.

Core Domestic

(millions of euros)	2017	2016	Change amount	Change %
Revenues	14,249	13,926	323	2.3
Consumer	*7,737*	*7,389*	*348*	*4.7*
Business	*4,656*	*4,531*	*125*	*2.8*
Wholesale	*1,690*	*1,780*	*(90)*	*(5.1)*
Other	*166*	*226*	*(60)*	*(26.5)*
EBITDA	6,029	6,528	(499)	(7.6)
EBITDA Margin	*42.3*	*46.9*		*(4.6)pp*
EBIT	2,736	3,309	(573)	(17.3)
EBIT Margin	*19.2*	*23.8*		*(4.6)pp*
Headcount at year end (number) (*)	49,095	50,527	(1,432)	(2.8)

(*) Includes employees with temp work contracts: 0 employees at 12/31/2017 (1 employee at 12/31/2016).

Core Domestic revenues for the fourth quarter

(millions of euros)	4th Quarter 2017	4th Quarter 2016	Change amount	Change %
Revenues	3,749	3,687	62	1.7
Consumer	*2,024*	*1,985*	*39*	*2.0*
Business	*1,259*	*1,235*	*24*	*1.9*

Wholesale	*431*	*410*	*21*	*5.1*
Other	*35*	*57*	*(22)*	*(38.6)*

In detail:

Consumer: revenues for the Consumer segment in 2017 amounted to 7,737 million euros, an increase of 348 million euros compared to the previous year (+4.7%). This performance continued the recovery trend begun in 2016.

Revenues from services amounted to 6,947 million euros, up by +153 million euros on 2016. The performance of each quarter is shown below, with comparative data provided for the same periods of the previous year.

Consumer revenues 2017 by quarter

(% change)

The performance of Consumer revenues in each quarter of 2017, for both the Fixed-line and Mobile segments, is shown below, with comparative data provided for each quarter of 2016.

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Consumer Fixed 2017 by quarter

(% change)

Consumer Mobile 2017 by quarter

(% change)

In particular:

revenues for the Mobile segment amounted to 3,893 million euros, up by 134 million euros (+3.6%) on 2016. Revenues from services rose by 105 million euros (+3.2% on 2016), confirming the growth trend observed in previous quarters (+2.9% in the fourth quarter). The figure was driven by steady growth in mobile Internet and digital services, which underpinned ARPU levels;

revenues for the Fixed-line segment amounted to 3,809 million euros, rising by 225 million euros compared to 2016 (+6.3%). Revenues from services also confirmed the recovery underway since 2016, driven in particular by growth in the Broadband and Ultra-broadband customer bases and the overall resilience of ARPU levels.

Business: revenues for the Business segment amounted to 4,656 million euros, rising by 125 million euros compared to 2016 (+2.8%), of which 21 million euros (+0.5%) in the services segment and 104 million euros (+22%) in the equipment and products segment. The performance of each quarter is shown below, with comparative data provided for the same periods of the previous year.

Business revenues 2017 by quarter

(% change)

The performance of Business revenues in each quarter of 2017, for both the Fixed-line and Mobile segments, is shown below, with comparative data provided for each quarter of 2016.

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Business Fixed 2017 by quarter

(% change)

Business Mobile 2017 by quarter

(% change)

In detail:

Mobile revenues posted positive growth compared to 2016 (+1.2%), driven by steady improvement in the services segment (+4.5% in the fourth quarter). In particular, growth in new digital services (+13% on the previous year) more than offset the continuing decline in traditional services (-9% in 2016, mainly in relation to voice services);

Fixed-line revenues rose by 111 million euros (+3.2% on 2016), driven mainly by the equipment and product segment. Revenues from services remained substantially in line with the 2016 figure, as lower prices and revenues from traditional services (connected with the technological shift towards VoIP systems) were offset by steady growth in revenues from ICT services (+9.3%).

Wholesale: revenues for the Wholesale segment in 2017 came to 1,690 million euros, down by 90 million euros compared to 2016 (-5.1%). Negative growth was due to the absence of non-recurring income from the sale of infrastructure (cable ducts and dark fiber/Backbone) to other operators, which had a positive impact on revenues for 2016. Nevertheless, growth in revenues from access and ultra-broadband services in 2017 (+88 million euros) more than offset the cut in regulated prices (-72 million euros).

International Wholesale Telecom Italia Sparkle group

			Change		
(millions of euros)	2017	2016	amount	%	% organic
Revenues	1,349	1,351	(2)	(0.1)	0.4
of which third party	*1,152*	*1,136*	*16*	*1.4*	*2.0*
EBITDA	154	182	(28)	(15.4)	(14.4)
EBITDA Margin	*11.4*	*13.5*		*(2.1)pp*	*(2.0)pp*
EBIT	37	67	(30)	(44.8)	(43.9)
EBIT Margin	*2.7*	*5.0*		*(2.3)pp*	*(2.2)pp*
Headcount at year end (number) (*)	756	753	3	0.4	

(*) Includes employees with temp work contracts: 0 employees at 12/31/2017 (3 employees at 12/31/2016).

Revenues for the Telecom Italia Sparkle group - International Wholesale in 2017 totaled 1,349 million euros, up by 0.4% on 2016 in organic terms, and by 2.0% excluding intercompany revenues from other Group companies. Specifically, revenues from Voice and Mobile services rose by 50.7 million euros in organic terms, which more than offset the drop in revenues from IP/Data/Other services, which were affected by the non-renewal of long-term contracts that expired in May 2017 (-33.7 million euros); net of the expired contracts, the IP/Data/Other component would have posted organic growth of 4.0 million euros.

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BRAZIL

	(millions of euros)		(millions of reais)		Change	
	2017	2016	2017	2016	amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	4,502	4,047	16,234	15,617	617	4.0
EBITDA	1,635	1,325	5,894	5,114	780	15.3
EBITDA Margin	*36.3*	*32.7*	*36.3*	*32.7*		*+3.6pp*
EBIT	535	368	1,931	1,418	513	36.2
EBITDA Margin	*11.9*	*9.1*	*11.9*	*9.1*		*2.8pp*
Headcount at year end (number)			9,508	9,849	(341)	(3.5)

	(millions of euros)		(millions of reais)		Change	
	4th Quarter	4th Quarter	4th Quarter	4th Quarter		
	2017	2016	2017	2016	amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	1,113	1,125	4,257	4,043	214	5.3
EBITDA	465	425	1,758	1,548	210	13.6
EBITDA Margin	*41.3*	*38.3*	*41.3*	*38.3*		*+3.0pp*
EBIT	195	158	729	586	143	24.4
EBITDA Margin	*17.1*	*14.5*	*17.1*	*14.5*		*+2.6pp*

	2017	2016
Lines at period end (thousands) (*)	58,634	63,418
MOU (minutes/month) (**)	109.7	116.6
ARPU (reais)	20.2	18.0

(*) Includes corporate lines.

(**) Net of visitors.

Revenues

Revenues for 2017, amounting to 16,234 million reais, were up by 617 million reais (+4.0%) on the previous year. Revenues from services totaled 15,474 million reais, an increase of 754 million reais compared to 14,720 million reais for 2016 (+5.1%).

Mobile Average Revenue Per User (ARPU) for 2017 was 20.2 reais, up on the figure of 18.0 reais for 2016 (+12.2%), due to the general repositioning towards the postpaid segment and new commercial initiatives aimed at increasing data usage and the average spend per customer.

The total number of lines at December 31, 2017 was 58,634 million, representing a decrease of 4,784 thousand compared to December 31, 2016 (63,418 thousand). The decline was entirely attributable to the prepaid segment (-7,701 thousand) and was only partially offset by growth in the postpaid segment (+2,918 thousand), also as a result of the consolidation underway in the market for second SIM cards. Postpaid customers represented 30.4% of the customer base at December 31, 2017, up 6.9 percentage points on December 2016 (23.5%).

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Revenues from product sales came to 760 million reais (897 million reais for 2016; -15.3%). The decline reflected a change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new loyalty offerings for higher-value postpaid customers.

The performance of total revenues in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

EBITDA

EBITDA amounted to 5,894 million reais, up by 780 million reais on 2016 (+15.3%). The growth in EBITDA was attributable to both the positive performance of revenues and the benefits delivered by projects to enhance the efficiency of the operating expenses structure, launched in the second half of the previous year.

The EBITDA margin stood at 36.3%, 3.6 percentage points higher than in 2016.

As reported, employee benefits expenses for 2016 included non-recurring expenses for termination benefits of 56 million reais. Excluding the impact of the non-recurring expenses, EBITDA for 2017 showed growth of +14.0% when compared to 2016.

The changes in the main cost items are shown below:

	(millions of euros)		(millions of reais)		
	2017	2016	2017	2016	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	2,168	2,028	7,816	7,826	(10)
Employee benefits expenses	353	336	1,274	1,296	(22)
Other operating expenses	500	505	1,805	1,948	(143)
Change in inventories	6	(1)	20	(2)	22

The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

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The performance of EBITDA in each quarter of 2017 is shown below.

EBITDA in the fourth quarter of 2017 amounted to 1,758 million reais, showing progressive improvement on the figures posted in the previous quarters. The EBITDA margin came to 41.3%, 3.0 percentage points higher than for same period of the previous year.

EBIT

EBIT amounted to 1,931 million reais, up by 513 million reais (+36.2%) on 2016 (1,418 million reais). This result benefited from the greater contribution from EBITDA (+780 million reais), which was offset by higher depreciation (+228 million reais) relating to the development of industrial infrastructure, and a lower impact of net gains from disposals of assets (-39 million reais), mainly attributable to the sale of telecommunication towers. In this regard, we note that the last partial sale of telecommunications towers to American Tower do Brasil took place in the second quarter of 2017. This transaction resulted in proceeds and an income effect of an immaterial amount.

EBIT for the fourth quarter of 2017 totaled 729 million reais (586 million reais for the fourth quarter of 2016), up by 24.4% on the same period of 2016; the EBIT margin was 17.1% (14.5% in the fourth quarter of 2016).

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MAIN COMMERCIAL DEVELOPMENTS

DOMESTIC

Consumer

Growth in the Fixed-line Consumer market continued to be driven in 2017 by the convergent and quadruple play offers of TIM SMART, a TIM family deal that combines Internet access, fixed-line phone service, mobile service and on-demand TIMVISION content all in one, and by continuing innovation in commercial deals, with promotional formulas reproposed in 2017 offering particularly competitive prices, including**:**

- local promotions**:** in Milan, for instance, starting from 19.90 euros for 1 year, and then 29.90 euros until the fourth year; and in other select cities starting from 24.90 euros for 4 years;

- TIM SMART welcome promo**:** a 10 euro discount for 3 renewals in April and May, and a promotional deal towards the start of summer offering 2 free renewals (TIM summer gift).

To help drive the adoption of fiber, TIM continued to give customers reached by the fiber-optic network a free trial of the new superfast fiber-optic services**.**

Building on the high service standards of its offers, in 2017 TIM introduced major improvements to customer experience for new TIM fixed-line customers, with the launch in April of new next-generation delivery services which:

- enable customers to make service appointments on their own by SMS;

- extend appointment times and days for TIM technical service calls, which can now be made Saturdays.

In 2017, TIM confirmed its commitment to the constant technological development of its network by accelerating deployment of fiber-optic connections, retaining its leadership for best fiber-optic coverage in Italy with over 2,000 municipalities served at the end of 2017 and the release in June of new ultrafast connections, running at 200Mbit/s over FTTCab and at 1000Mbit/s over FTTH.

Business strategy in the Mobile market in 2017 focused strongly on a direct debit campaign in an effort to reduce churn rates and stabilize customer spending. As part of the campaign, a range of deals was launched (TIM Special, TIM Young, TIM 60+, TIM International) offering content benefits and subscription discounts for customers choosing to direct debit the subscription fee from their bank account or credit card. In June 2017, the TIM direct debit campaign was given a further boost with the launch of TIM Ricarica Automatica, a new option for customers to top-up their credit automatically the day before a deal is renewed or when their credit falls below 3 euros. Other initiatives to reduce the churn rate involved the launch of special deals, in March 2017, offering a discount on activation fees for

customers, providing their TIM Card remains activated for 24 months. If not, the discount applied will be reversed and charged. In addition, in an effort to differentiate itself from its competitors, TIM introduced new features to its portfolio of mobile deals that build on the competitive advantages of the quality of its 4G and 4.5G networks, with new offers launched to maximize customer retention (such as exclusive smartphone deals for customers of more than one year) and exclusive PREMIUM content unlocked for all customers, including TIM Show, featuring the best TIMMUSIC playlists, Gameloft games and STUDIO+ TV series. The introduction of distinctive offers like these underpins a value strategy and a focus on the quality of our deals that have allowed us to maintain our premium positioning on the market.

At the same time, efforts continued to focus on the spread of new smartphones through the offer of premium content and unique formulas, such as the NEXT smartphone renewal deal. TIM was the first to offer this kind of deal, allowing the customer to replace their smart phone every year at no cost, with extra services such as protection against damage and theft.

The customer retention drive in 2017 once again included a wide-ranging program of commercial initiatives and promotions coinciding with major holidays (e.g. Christmas, International Women s Day, Valentine s Day, Halloween, etc.), to show our care for customers and boost brand loyalty and satisfaction levels.

Lastly, during the year the company also continued its segment-based approach, with dedicated value propositions according to the varying needs of the targets. In particular, for Young customers, initiatives included targeted music deals and special content offers for customers choosing to direct debit subscription charges from their bank account or credit card. For the youngest customers (Young Junior), TIM focused on expanding the content it offers to appeal both to younger children (TIM Games) and parents (TIM Protect, to control Internet browsing, and tracking services and devices). Finally, for Senior customers, the company expanded its offering with targeted features such as dedicated 24/7 telephone assistance and simplified smartphones.

The year 2017 also saw significant progress in the technological evolution of the TIM mobile network. At national level, 4G LTE technology has now reached more than 7,100 municipalities, covering over 97% of the population. Moreover, TIM has also confirmed its technological leadership through the development of its 4G Voce service (VoLTE technology), which allows all customers with a compatible smartphone to experience the quality of high-definition (HD) voice calls. The company continued the steady roll-out to Italy s major cities of 4.5G services (LTE Advanced technology), which offer data connection speeds of up to 700 Megabits per second. In July, TIM gave a world preview of the exceptional download speeds of up to 1 Gigabit per second of its live 4.5G network.

The 5G for Italy program underscores TIM s commitment to the digital transformation of the country, with infrastructure and applications set to have a positive impact on all market sectors and lifestyles, playing a leading role in spearheading Italy into the future Gigabit society .

Business

TIM s work in the Business market during 2017 focused on four main areas:

- restoring positive growth in the Fixed-line and Mobile customer bases, in line with trends in the various segments (fixed-line, mobile and IT) and turning around the decline in revenues;

consolidating the customer retention process through structural initiatives targeting both the proposal of deals and customer experience;

streamlining and simplifying internal processes through their progressive digitization, to further improve the flexibility and effectiveness of our approach to the market;

extending our leadership in the ICT market through a portfolio of over-the-network service and data deals targeted at the large customer segment, and through off-the-shelf cloud computing solutions for SMEs.
Initiatives were directed towards the commercial front end, accelerating the progressive enhancement of the assets that make TIM an integrated operator: fixed-mobile convergence, innovation driven by significant investment and IT which, in support of the core business, helps the traditional offering to stand out. At the same time, additional investments were targeted at further expanding the reach of our widespread and dominant direct and indirect commercial networks, which are a key asset for our business. The primary objective pursued over the year was to defend the customer base (by stemming line losses in the fixed-line segment and achieving net growth in Mobile users) and to strengthen TIM s position as the key national player in steering the IT needs of small and medium enterprises, corporates and the public sector. Major efforts were also focused on boosting ARPU through bundle propositions combining different types of services, and by leveraging professional services that are distinctive and highly visible. This stronger commercial presence also helped to drive greater use of core connectivity services, speeding up the spread of fixed-line fiber and VoIP services and the adoption of LTE/VoLTE on the mobile network, thanks to significant increases in the coverage of both during the course of the year. The M2M customer base was expanded greatly, which, together with technological innovation towards 5G networks, will lay the groundwork for the development of new next-generation services (IoT).

In the Fixed-line market, in particular for the SOHO-SME segment, TIM radically simplified its entire portfolio of deals by rationalizing and steering it closer to changing market demands, with the focus squarely placed on fiber-optic and VoIP solutions. Most notably, a dual-line fiber-optic solution was launched to enable the migration of ISDN customers. To support ARPU growth and boost customer retention, the range of offers was enriched with bundle deals for Unified Communication services (Nuvola IT Comunicazione Integrata Smart) and IT services, delivering major opportunities for end users in terms of efficiency and new business development. In all segments, the emphasis was on differentiating TIM to stand out in terms of its range of deals, the professionalism of its services and their exclusivity, to ensure the identification as a Premium player (also supported, for the first time, with dedicated radio and television campaigns).

For high-end Business customers, the portfolio of offers for professional connectivity services was overhauled to privilege fiber-optic connectivity deals. The proposition of cloud computing services was stepped up with new offers launched for VoIP and advanced Collaboration services and the introduction of a mixed cloud-on premise deal alongside the full-cloud deal, offering SIP trunking as part of the Nuvola IT Comunicazione Integrata offer. This type of strategy will help promote the development of IT services.

Information Technology offers underpinned major growth in revenues for the segment as a whole and in revenues from cloud services. Developments in services were focused primarily on leveraging Data Center assets and on the offer of Security, Communication as a Service and Business Solutions. Efforts were stepped up with respect to 2016 to promote the adoption of SPC Cloud Lotto 1 solutions for the Public Sector, in particular cloud-based IaaS, PaaS, SaaS solutions. To drive the more widespread adoption of cloud services by Local Public Sector bodies, cloud-based SPC solution packages were developed offering data protection, server virtualization, website management/development and statutory document archiving. Development of the OTT IT offering also continued.

The Digital Store Market Place now features around 100 solutions for SMEs, of which around 70 were developed by partners in the TIM Open environment, using both horizontal and vertical approaches for new e-commerce, e-payment, security, and video control solutions, to give just a few examples.

In terms of Mobile services, the Business market in 2017 also saw further development of the Mobile Ultra-Broadband service over the LTE and VoLTE networks, while also expanding our offering with VAS and IT solutions. Growth was posted over the year in the total acquisition of lines and the churn rate improved. The overall performance of MNP was also positive and solid growth was witnessed in the M2M segment. Data and IT bundles were promoted through a more value for more money approach, balanced by the need to improve retention rates.

For our top-end customers, alongside contract renegotiations with large customers to defend revenues, the Tutto Smart offering continued, which provides a bundle of services for smartphones and tablets while also adding a suite of extra services to our standard All-Risk Assistance priced at a monthly fee per line. Business with this particular segment improved in terms of effectiveness, thanks to the greater efficiency of processes/systems and bidding initiatives.

Finally, in 2017, Olivetti, now integrated into the Business Unit in organizational terms, focused on the optimization of its traditional Enterprise Services and Specialist Assistance business, and on expanding its foothold in innovative areas such as Metering & Tracking, Connected Cars, Smart Retail, Digital Schools, Business Intelligence (through the TIM Visual Insight and Tim City Forecast offers), Smart Agriculture and Industry 4.0.

BRAZIL

In 2017, TIM Brazil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network.

The change in approach had a major impact on the mix of the customer base, mainly in the prepaid segment, resulting in the progressive and marked migration of customers from single service daily plans (voice and/or data) to recurring weekly/monthly plans that bundle voice and data packages with other value-added services (music, e-reading and video streaming), all with a view to stabilizing future revenue flows and proactively managing the consolidation underway of the market for second SIMs. The main sales initiatives included:

- the launch of a new range of recurring bundle offers (TIM Pre) for the Prepaid segment, which offer comprehensive and differentiated solutions for voice and data services;
- the introduction of TIM s innovative More for More approach for the Controle segment, which gives customers more value in terms of calls, data and unlimited content. The approach has underpinned constant growth in the customer base as increasing numbers of prepaid customers migrate to higher value recurring offers, which has positively impacted growth in ARPU generated;
- the launch of new offers for the Postpaid Consumer segment including the TIM Black brand, consisting of differentiated data offers bundled with add-on packages to access specific content (Netflix, Cartoon Network, Esporte Interativo, etc.) and a dedicated plan for households (TIM Black Família);

the overhaul of the customer acquisition strategy for the Postpaid Corporate SMB segment, where TIM is the market leader. The new strategy does away with trade-ins as a sales practice, to ensure the growth and retention of the high-value customer base and avoid arbitrage by sales channels;

greater commercial development of the brand TIM Live in the Residential Fixed-line Broadband segment, which posted strong growth in the customer base thanks to service levels that are among the highest on the market. The launch of FTTH offers is planned for the first half of 2018;

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in addition, in a select number of smaller cities without fixed-line UBB networks, WTTX was launched to provide mobile access to limited broadband services, building on the potential of the 700 Mhz 4G network.

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MAIN CHANGES IN THE REGULATORY FRAMEWORK

DOMESTIC

In this section we report the main changes in the regulatory framework in 2017 in the Domestic region. For more information on various proceedings pending with regulatory authorities, see the Note Contingent liabilities, other information, commitments and guarantees in the Tim Group Consolidated Financial Statements as at December 31, 2017.

Wholesale fixed-line markets

Wholesale access services

At the end of the proceeding initiated through Resolution 623/15/CONS, in December 2016, AGCM and AGCom approved TIM s New Equivalence Model (NEM) aimed at structurally improving the effectiveness of the equal treatment in the supply of wholesale access services provided to its competitors and its commercial divisions. AGCom has set up a technical panel to monitor the implementation process, involving TIM and other licensed operators affected.

In the same Resolution 623/15/CONS, AGCom asked TIM to submit two alternative proposals (unbundling and outsourcing models) regarding greater autonomy for the other licensed operators in the provision of delivery and assurance for the local loop unbundling (LLU) and sub-loop unbundling (SLU). On August 23, 2017, by Resolution 321/17/CONS, AGCom approved an unbundling model that gives other licensed operators the possibility of choosing between TIM and external companies, selected by TIM, for provisioning and assurance services, while still fully meeting the requirements of integrity, functional operation and security of the network.

Infratel Tenders for the subsidizing of the Ultra Broadband networks

In March 2017, Infratel Italia awarded the company Open Fiber (OF) the five lots of the tender for the construction and operation of networks enabling the offering of Ultra Broadband services (from 30 to 100 Mbit/s) in the so-called White Areas (in which the private operators had not envisaged the independent construction of Ultra Broadband infrastructure in the next three years) of the municipalities of six Italian regions (Abruzzo, Molise, Emilia Romagna, Lombardy, Tuscany and Veneto).

On March 20, 2017, the Lazio Regional Administrative Court rejected the appeal filed by TIM concerning the tender and, consequently, TIM lodged an appeal on June 20, 2017 with the *Consiglio di Stato*.

In July 2017, OF was awarded the six lots of the second Infratel tender, for the white areas of 10 regions (Piedmont, Valle d Aosta, Liguria, Friuli Venezia Giulia, Marche, Umbria, Lazio, Campania, Basilicata and Sicily) and the autonomous province of Trento. TIM s appeal against the outcome of the second tender was rejected by the Lazio Regional Administrative Court.

On October 2, 2017, Infratel started a public consultation process on the capital expenditure programs of private operators in the white areas of the regions of Calabria, Apulia and Sardinia, with a view to publishing the third and

final direct tender call for ultra-broadband coverage in such white areas of these regions.

Retail fixed-line markets

28-day invoicing

On March 24, 2017, by Resolution 121/17/CONS, AGCom ordered all TLC providers to set their invoicing cycles on a monthly or multiple month basis for fixed-line and convergent (fixed-line and mobile bundles) services, with the deadline for compliance set at June 23, 2017. Resolution 121 marks the definitive conclusion of a regulatory dispute whose sole purpose has always been to ensure price transparency and the comparability of economic terms and conditions.

TIM has filed an appeal against the decision with the Lazio Regional Administrative Court on the grounds that AGCom is not vested with such power given that neither European nor national legislation contemplate limits on the invoicing cycles chosen by fixed-line and mobile service providers. ASSTEL (the association of TLC providers) has also appealed the decision on behalf of the sector as a whole. A ruling is expected between March and April 2018.

On the basis of the Resolution, in September 2017, AGCom initiated penalty proceedings against TIM and other TLC operators, which ended with the handing down of Resolution 499/17/CONS in December 2017, under which TIM (and other TLC operators) was fined 1.16 million euros and ordered to refund, when restoring the monthly (or multiple month) invoicing cycle, additional amounts charged for the corresponding number of days of service not utilized by customers, from June 23, 2017 onwards, resulting from to the realignment of the 28-day invoicing cycle to a monthly cycle. At the end of January 2018, TIM filed an appeal with the Regional Administrative Court against the decision, requesting its suspension.

In December 2017, the Italian parliament approved Law 172/17 introducing mandatory monthly invoicing for all electronic communication services, with the deadline for compliance set at April 5, 2018.

On February 12, 2018, the Lazio Regional Administrative Court rejected the appeal of TIM (and similar appeals filed by Wind Tre, Fastweb, Assotelecomunicazioni, Eolo and Postemobile) against Resolution AGCom 121/17/CONS. TIM will challenge the ruling with the *Consiglio di Stato*. Instead, the Lazio Regional Administrative Court suspended the effect of AGCom Resolution 499/17/CONS as concerns the order to refund customers amounts corresponding to the number of days of service not utilized, from June 23, 2017 onwards, under the 28-day invoicing cycle. The merits hearing has been set for November 14, 2018. On March 7, 2018, TIM was notified of the decision by AGCOM (Resolution 112/2018/CONS) to (i) order the Company, in relation to fixed-line telephone services only, to postpone the commencement of invoices issued after the restoral of the monthly invoicing cycle by a number of days equal to those presumed gnawed since June 23, 2017 under the 28-day invoicing cycle; and (ii) cancel part of its previous Resolution 499/17/CONS in which TIM was ordered to refund amounts presumed gnawed since June 23, 2017 under the 28-day invoicing cycle. The decision will be appealed by TIM with the Lazio Regional Administrative Court.

Finally, we report that on February 19, 2018, AGCM initiated proceeding I820 to investigate alleged collusion among major operators in an agreement to restrict competition in complying with the provisions laid down by Law 172/17.

Universal Service

By Resolution 46/17/CONS of January 26, 2017, AGCom introduced new measures regarding the subsidized financial conditions for access to fixed-line and mobile services for particular categories of disabled customers. The provisions of the measure, which apply to the deaf and the totally and partially blind, broaden the current subsidies, both in terms of discounted services (e.g. flat voice and data offers) and categories of disabled people covered (e.g. the partially

blind). In February 2017, TIM submitted an appeal to the Lazio Regional Administrative Court against Resolution 456/16/CONS of October 2016, through which AGCom rejected TIM s

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proposal for a price adjustment on the Voice offering (the basic voice telephony offering), and introduced a strict procedure for future changes of Universal Service prices, by providing, for example, a minimum time interval of a year between two successive tariff changes and the possibility to only change prices with reference to: (i) increase in *wholesale* costs; (ii) offsetting inflation; (iii) socio-economic conditions. On February 21, 2018, the Lazio Regional Administrative Court rejected the appeal. TIM is considering challenging the decision with the *Consiglio di Stato*.

By Resolution 163/17/CONS of April 18, 2017, AGCom imposed a fine of 232,000 euros on TIM for the failure to deliver 4 of the Universal Service quality objectives for 2015.

As a result of ruling no. 4616/2015 of October 2, 2015, in which the *Consiglio di Stato* canceled resolution 1/08/CIR solely with respect to the application of the new methodological criteria for the calculation of the net cost of the Universal Service (USO) for the period 2004 2007, AGCom initiated the renewal proceedings for those annual periods and appointed an independent consultant to revise the calculation of the USO, by Resolution 145/17/CONS for the years 2006 and 2007 and by Resolution 207/17/CONS for the years 2004 and 2005. Audit activities were started in October 2017 and should end by mid-2018.

Wholesale mobile network markets

International roaming

On June 15, 2017, the provision of European Regulation 2015/2120 of November 25, 2015 (Telecom Single Market - TSM Regulation) entered into force, which requires for the application of the national tariff for intra-EU voice, SMS and roaming data traffic.

On April 25, 2017, the European Parliament and the Council adopted a regulation establishing new wholesale caps for roaming traffic valid from June 15, 2017 to June 30, 2022 (Voice: 3.2 euro cents per minute; SMS 1 euro cents per SMS, data: 7.7 euro/GByte in 2017; 6 euro/GByte in 2018; 4.5 euro/GByte in 2019; 3.5 euro/GByte in 2020; 3 euro/GByte in 2021; and 2.5 euro/GByte in 2022).

AGCom contribution fee

On March 31, 2017, TIM paid an amount of 19.3 million euros, with reservation, for the 2017 AGCom contribution fee. The value was calculated by applying the rate of 0.0014 to the revenues recorded in the Company s 2015 Financial Statements. The guidelines for the calculation of the contribution fee, set out in the AGCom Resolutions 463/16/CONS and 62/17/CONS, have not changed with respect to those established for the calculation of the 2016 contribution fee.

Antitrust

Case A500B

On December 13, 2017, AGCM concluded proceeding A500B, finding that the Company, with the assistance of Telecom Italia Sparkle S.p.A., had abused its dominant market position by forcing an equally efficient downstream competitor that purchases SMS termination for the mobile network to reduce its margins.

AGCM imposed an administrative fine on TIM of 3.7 million euros. TIM lodged an appeal against the decision with the Regional Administrative Court on February 26, 2018.

Case I799

On February 1, 2017, AGCM initiated investigation proceedings for possible breaches of Article 101 TFEU (ban on competition-restricting agreements) against TIM S.p.A. and Fastweb S.p.A., following the signing of an agreement aimed at establishing a joint cooperative enterprise Flash Fiber S.r.l.. In agreement with Fastweb, TIM has submitted several amendments to the agreements signed to the AGCM, in the form of proposed commitments, aimed at settling the proceedings without accepting the violation and, therefore, without any financial penalty. On December 20, 2017, AGCM decided to extend the deadline for the evaluation of the proposed commitment to February 28, 2018, and the deadline for the conclusion of the proceedings to July 31, 2018. If the commitments undertaken by TIM are approved, AGCM will announce its decision after hearing the mandatory opinions of AGCom and the European Commission. If instead the commitments are rejected, the proceedings will continue and be concluded by July 31, 2018.

Case A514

On June 28, 2017, AGCM initiated proceedings against TIM for alleged competition breaches of Article 102 of the TFEU, following complaints made by Infratel, Enel, Open Fiber, Vodafone and Wind-Tre. The charges against TIM include behavior aimed at: (i) hindering Infratel tender processes in an effort to delay or render less profitable the entry of another operator on the wholesale market; and (ii) locking in ultra-broadband customers in advance, to reduce the market space available to competitors. On February 14, 2018, AGCM decided to extend the scope of the proceeding to investigate other alleged behavior by TIM concerning its wholesale price strategy for broadband and ultra-broadband wholesale access services and the use of privileged information concerning the customers of alternative operators. The proceeding is due to end by October 31, 2018.

Case 1820

On February 19, 2018, AGCM initiated a preliminary proceeding against the companies TIM, Vodafone, Fastweb and Wind Tre and the industry association ASSTEL to investigate the alleged existence of an agreement among the major fixed-line and mobile telephone operators to restrict competition by coordinating their respective commercial strategies, in breach of Article 101 of the TFUE.

According to the AGCM decision initiating the procedure, collusion is alleged to have consisted of coordination by the operators in their compliance with the obligation introduced by Article 19-quinquiesdecies of Italian Decree Law 148/2017 (converted into Law 172/2017) for providers of electronic communication services to invoice and renew fixed-line and mobile services on a monthly (or multiple month) basis. The proceeding is due to end by March 31, 2019.

Disputes with AGCom

On August 9, 2017, AGCom provided notification of Resolution 88/17/CIR in which it had ruled on the dispute initiated on August 2, 2016 by TIM against Enel Distribuzione (ED) regarding the conditions of access to ED s infrastructure. AGCom recognized the validity of most of the objections raised by TIM and ordered the amendment of the Technical and Financial Rules for access to the electricity infrastructure of ED .

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On October 12, by Resolutions 149/17/CIR, 151/17/CIR, 152/17/CIR, and 150/17/CIR, and on October 30, by Resolution 153/17/CIR, AGCom concluded 5 disputes brought by TIM against Fastweb to obtain full payment for a series of services billed to the provider (WLR ISDN PRA, ATM ABR band for VP Bitstream, TDM interconnection flows, ULL and Bitstream termination, and activation of symmetric accesses), ruling in favor of TIM.

Potential use of frequencies for mobile technology

Under Decision (EU) 2017/899 of the European Parliament and of the Council of May 17, 2017, all frequencies in the 700 MHz band (694-790 MHz frequencies, corresponding to television channels 49-60 on the UHF band), are to be allocated on a primary basis to mobile broadband services by 2020, or by 2022 if justified reasons exist. In Italy, Article 1 (1026 1045) of Law 205 of December 27, 2017 sets out how the 700 MHz band, together with the 3.6 3.8 GHz and 26.5 27.5 GHz bands, is to be released and auctioned. The 700 MHz band will be available to mobile service providers as of July 1, 2022, after its release by television broadcasters. The auctioning of the band is expected to raise at least 2.5 billion euros in revenues for the State, of which 1.25 billion euros in 2018 alone (payment of user rights to 700 MHz frequencies will be spread over 2018 to 2022).

On September 30, 2017, TIM paid up approximately 630 million euros for the renewal of its licenses to the 900 and 1800 MHz bands until December 31, 2029. AGCom has approved the renewal of the licenses and the Ministerial Decree assigning the extensions is now pending.

As concerns the television frequencies, the 2018 Budget Law provides for the re-farming of lower frequencies or their return for an indemnity. Specifically, for television broadcasters holding frequency rights to specific frequencies that are transformed into shared MUX capacity rights, the law envisages an indemnity to compensate for the technological change of:

- approx. 277 million euros in total for national broadcasters (including Persidera, holder of national frequency rights on 5 MUX), equal to an average 7 million euros per channel;

- approx. 304 million euros in total for local broadcasters, equal to an average 7.6 million euros per channel.

BRAZIL

Revision of the model for the provision of telecommunications services

In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a diagnosis on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by

both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October, the bill PLC 79/2016 was referred back to the Senate, where it is expected to be debated again over the course of 2018.

In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy, which is expected to lead to the issue and publication of a new Presidential Decree in 2018. The public consultation process proposed the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of smart cities .

In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

Revision of Competition Rules

In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of *ex-ante* obligations (Plano Geral de Metas de Competição PGMC).

Currently, TIM has SMP in (i) passive infrastructure (towers); (ii) mobile network termination, and (iii) national roaming. A public consultation on reforms to the PGMC was begun on December 7, 2016 and concluded on March 22, 2017. Alongside the re-identification of relevant markets, work is underway for the classification of towns on the basis of specific competition levels (1: competitive, 2: moderately competitive, 3: not very competitive, 4: uncompetitive) before any asymmetric regulatory measures are applied. Under the regulatory agenda, the new regulation is expected to be introduced in 2018.

700 MHz and Analog TV switch off

In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1.7 billion reais, and with additional commitments of 1.2 billion reais (in four annual installments, adjusted for inflation) as a contribution to the consortium established by the tender (EAD) for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais) was made in April 2015 and another two payments (for a total of 860 million reais) were both made in January 2017, whereas the final installment (142 million reais) is due in January 2018.

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Since the switch-off process was launched, 3,592 municipalities have released the 700 Mhz spectrum, including major cities such as Rio de Janeiro and São Paulo. The municipalities represent 51.7% of the Brazilian population (105.6 million people) and 89% of national territory.

Marco Civil da Internet and Network Neutrality

The Marco Civil da Internet (MCI), approved in April 2014 by Brazilian Law No. 12,965/2014, defined network neutrality as the duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application . On May 11, 2016, Brazilian Presidential Decree No. 8,771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.

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

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COMPETITION

DOMESTIC

The market

The Italian TLC market witnessed a turnaround in 2017, posting low but positive growth levels after years of uninterrupted decline, despite high competition levels in the sector.

The expansion of broadband and ultra-broadband has been the main driver of market growth, helping to open up new opportunities for telecommunications providers to develop convergent offers that bundle together TLC services with Media & Entertainment services, IT services and Digital services.

At the same time, telecommunications providers not only face core competition with other operators in the sector still the factor that has the greatest impact on market trends but must also deal with the invasion by Over-the-Top service providers (OTTs) and device manufacturers, which operate entirely in the digital world, using completely different assets and competitive strategies to TLC players.

The traditional business models of the various market players are, therefore, changing to exploit new opportunities and meet the challenges posed by the new entrants:

- in the Media & Entertainment segment, as the web takes on growing importance as a complementary distribution platform, OTTs, telecommunications providers and consumer electronics manufacturers are acquiring an increasingly major role;

- in the Information Technology market, the decline in traditional revenues is driving the various players towards cloud computing, with the goal of protecting their core business. Telecommunications providers are strengthening in this sector, including through partnerships;

- Consumer Electronics manufacturers are developing services that can be accessed through the Internet by leveraging handset ownership and user experience management, breaking the relationship between customers and TLC providers;

- OTTs have, for some time now, been leading the transformation in how TLC services are used (including voice services), increasingly integrating them with Media & Entertainment, IT and new Digital services.

With regard to the current positioning of telecommunications providers in converging markets, on the other hand, as partially described above, the following is taking place with different levels of progress:

- development of new Media & Entertainment services (TV, Music, Gaming) and new Digital services (Smart Home, Digital Advertising, Mobile Payment-Digital Identity);
- development of Innovative Services in the IT market, particularly Cloud services.

Competition in Fixed-line Telecommunications

The fixed-line telecommunications market has continued to see a decline in access and voice revenues, while broadband and ultra-broadband revenues have shown continuous growth. In recent years, service providers have concentrated mainly on expanding the penetration of broadband and ultra-broadband services and defending Voice revenues by introducing bundled voice, broadband and service deals in a highly competitive environment with consequent pricing pressure.

Deals and offers are also becoming more competitive thanks to the consolidation, among competitors, of an approach based on control over infrastructure (above all, Local Loop Unbundling (LLU), as well as Fiber to the Cabinet (FTTC) networks). The main fixed-line service providers are also offering mobile services, also as Mobile Virtual Operators (MVOs).

As concerns competition in infrastructure, two providers Open Fiber (an ENEL Group company) and Infratel (controlled by the Ministry of Economic Development) presented plans for the development of their own optic fiber networks as alternatives to the TIM network, which respectively target major Italian cities and areas of market failure.

For major cities, Open Fiber announced a plan to invest 3.9 billion euros in the development of Fiber to the Home (FTTH) in 271 large Italian towns by 2022, reaching around 9.6 million real estate units.

- The service is already available in some districts of major cities, such as Milan, Turin and Bologna, where Metroweb (which was acquired in December 2016) had previously expanded its network, but also in other cities such as Bari, Cagliari, Catania, Naples, Padua, Perugia, Venice, Genoa, Palermo and others.
- Open Fiber announced that it would be extending the network to another 40 towns by the end of 2017, with another 40 to be added in 2018.

In the meantime, according to media reports, a number of our competitors in the TLC retail market have signed an agreement with Open Fiber to link their new ultra-broadband customers onto its network, where available.

As concerns areas of market failure the so-called white areas in the C and D clusters of the government s Ultra-Broadband Plan Infratel held two public calls for tenders over 2016 and 2017 for the development of a UBB network to deliver services to a total of 9.3 million real estate units in over 6,000 municipalities across 16 regions.

- In the first call for tenders, Open Fiber won all five of the lots offered in the six regions involved (Lombardy, Emilia Romagna, Veneto, Tuscany, Abruzzo and Molise), covering around 3,000 municipalities and 4.6 million real estate units.

In the second call for tenders, Open Fiber won all six of the lots offered in the ten regions involved (Piedmont, Valle d Aosta, Liguria, Friuli Venezia Giulia, the Autonomous Province of Trento, Marche, Umbria, Lazio, Campania, Basilicata and Sicily), covering around 3,700 municipalities and 4.7 million real estate units.

Infratel is now preparing a third call for tenders for the remaining areas in Calabria, Apulia and Sardinia (the public consultation process was brought to a close on November 20, 2017).

As such, Open Fiber s development plan and the coverage of the public contracts awarded by Infratel stepped up competition in the infrastructure sector in a major way, by introducing new ultra-broadband networks that overlap and have a different reach to existing infrastructure:

- areas with two FTTH networks overlapping FTTC networks
- areas with a single FTTH network overlapping FTTC networks
- areas with FTTH networks overlapping ADSL networks
- areas with FTTC networks overlapping ADSL networks

Competition in the Italian fixed-line telecommunications market is also characterized by the presence of other service providers besides TIM, such as Wind-Infostrada, Fastweb, Vodafone, and Tiscali, which have business models focused on different segments of the market.

After years of market decline, driven by the migration of fixed-line customers to mobile services and alternative telecommunications solutions (Voice over IP, e-mail, Social Media chat services), fixed-line accesses grew slightly in 2017, reaching approximately 20.6 million at December 31, 2017 (including Infrastructured OLO accesses and FWA-Fixed Wireless Access). Competition in the access market led to a gradual reduction in TIM s market share.

As concerns the Broadband market, at December 31, 2017, the number of fixed-line broadband customers in Italy (including both broadband and ultra-broadband customers) was estimated to have reached a penetration rate of approximately 80% of all fixed-line accesses. The spread of broadband continues to be driven by the penetration of computers and other enabling devices (such as Smart TVs), but also by growing demand for fast connections and access to new over-IP services that are becoming increasingly widespread (Media & Entertainment, IT and Digital services).

Competition in Mobile Telecommunications

The mobile market has continued to see the rationalization of second and third SIM cards for human communications, while sales of SIM cards for machine to machine (M2M) communications are growing.

The spend on services showed slight growth in 2017, although signs of weakness appeared in the second half of the year. Revenues from traditional service components, such as voice and messaging services, continued to decline, while mobile broadband revenues grew strongly.

Growth in mobile broadband customers has continued thanks to the high penetration rate of LTE on mobile lines, especially as a result of the increasing spread of smartphones.

Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile apps, there are other market environments, associated with the development of mobile broadband, with major

potential for growth in the medium term, such as the Internet of Things and mobile payment.

The competitive scenario in the Italian telecommunications market in 2017 was shaped by the merger of Wind and H3G, which became effective during the year, creating the biggest single player on the market in terms of SIM card numbers. During the year, TIM launched Kena Mobile, a new virtual operator on the market. In 2018, the French provider Iliad is expected to enter the Italian market, where it will become the fourth infrastructured operator alongside TIM, Vodafone and, now, Wind-Tre.

At the same time, mobile virtual operators (MVO), of which PosteMobile is the most important player, have continued to enjoy significant growth, taking market share away from infrastructured operators.

BRAZIL

Macroeconomic trends witnessed in the last quarter of 2017 confirm the recovery expected in 2018 and should ensure the sustainability of an expansive economic cycle. Production output has recovered and unemployment has fallen, while inflation returned to a more contained level (around 4%), after the instability seen over the last two years, which risked seriously undermining the purchasing power of households.

Nevertheless, the present political uncertainty raises an important question mark over the ability for growth to be constant and structural, as do the tax rises introduced to rein in the growing budget deficits of municipalities, Federal States and the central government. At the start of 2018, in fact, an additional tax was introduced for value-added services, which may complicate the ability of companies to implement business growth strategies and cost control plans.

In this conflicting setting, the mobile telecommunications sector has seen rationality prevail in the market and in competition, with service providers remaining focused on the development of the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies.

In the Prepaid segment, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the consolidation underway in the market for second SIMs and encouraging migration to weekly and monthly rate plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet the different needs of customers (unlimited call minutes or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability and growth in ARPU.

In the Postpaid mobile segment, growth in the customer base was driven primarily by the migration of Prepaid customers to the Controle segment, and by business growth plans targeting the pure Postpaid segment, based on offer segmentation strategies that introduce distinctions in the use of data services (such as the unlimited use of data for specific apps, such as WhatsApp, Facebook, Netflix, etc.), as part of a More for More sales policy that is bringing greater price stability and effectively repositioning the customer base towards higher value deals (voice + data + content).

Service quality is increasingly becoming an element of differentiation. The TLC providers that have invested most in the development of 4G networks and in the improvement of processes shaping customer experience will have a greater ability than their competitors to apply a premium on prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content.

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The residential fixed-line broadband market posted growth of approximately 7% in 2017 compared to 2016, driven mainly by smaller market players, which tend to offer faster download speeds and/or service in areas in which the incumbents have limited infrastructure. Penetration rates across the population are still quite low when compared to the United States or Europe, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.

In this context, in 2017, TIM adopted a new business strategy based on a differentiated approach between the big cities, where it has the fiber network infrastructure to offer FTTC/FTTH through TIM Live, and small cities, where it has leveraged the availability of the 700 MHz 4G network to launch a new WTTX service offering limited access to broadband. At end of 2017, TIM Live had a customer base of 392 thousand users, up by 28% on the end of 2016. Its download speeds and customer satisfaction rates rank it among the top broadband providers in the country.

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CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: this decreased by 150 million euros, from 29,612 million euros at the end of 2016 to 29,462 million euros at December 31, 2017 due to the decline in exchange rates for the Brazilian companies[(1)] . Further details are provided in the Note Goodwill in the Consolidated Financial Statements as at December 31, 2017 of the TIM Group.

Other intangible assets: these rose by 241 million euros, from 6,951 million euros at the end of 2016 to 7,192 million euros at December 31, 2017, representing the balance of the following items:

- capex (+2,292 million euros);
- amortization charge for the year (-1,793 million euros);
- disposals, exchange differences, reclassifications and other changes (for a net negative balance of 258 million euros).

Tangible assets: these rose by 187 million euros, from 16,360 million euros at the end of 2016 to 16,547 million euros at December 31, 2017, representing the balance of the following items:

- capex (+3,409 million euros);
- changes in finance leasing contracts (+68 million euros);
- depreciation charge for the year (-2,680 million euros);
- disposals, exchange differences, reclassifications and other changes (for a net negative balance of 610 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 23,783 million euros (23,553 million euros at December 31, 2016), of which 21,557 million euros attributable to Owners of the Parent (21,207 million euros at December 31, 2016) and 2,226 million euros attributable to non-controlling interests (2,346 million euros at December 31, 2016). In greater detail, the changes in equity were the following:

(millions of euros)	12/31/2017	12/31/2016
At the beginning of the year	23,553	21,249
Total comprehensive income (loss) for the year	457	2,801
Dividends approved by:	(230)	(204)
TIM S.p.A.	*(166)*	*(166)*
Other Group companies	*(64)*	*(38)*
Issue of equity instruments	(6)	1
Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016		1,300
Disposal of the Sofora Telecom Argentina group		(1,582)
Other changes	9	(12)
At the end of the year	23,783	23,553

(1) The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 3.96728 at December 31, 2017 and 3.43542 at December 31, 2016.

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CASH FLOWS

Adjusted net financial debt stood at 25,308 million euros, up by 189 million euros compared to December 31, 2016 (25,119 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt for 2017:

Change in adjusted net financial debt

(millions of euros)	2017	2016	Change
EBITDA	7,790	8,002	(212)
Capital expenditures on an accrual basis	(5,701)	(4,876)	(825)
Change in net operating working capital:	(126)	(98)	(28)
Change in inventories	*(30)*	*(10)*	*(20)*
Change in trade receivables and net amounts due from customers on construction contracts	*379*	*(310)*	*689*
Change in trade payables (*)	*(217)*	*445*	*(662)*
Other changes in operating receivables/payables	*(258)*	*(223)*	*(35)*
Change in employee benefits	437	(131)	568
Change in operating provisions and Other changes	96	(41)	137
Net operating free cash flow	2,496	2,856	(360)
EBITDA Margin	*12.6*	*15.0*	*(2.4)pp*
Sale of investments and other disposals flow	33	745	(712)
Share capital increases/reimbursements, including incidental costs	16	1,304	(1,288)
Financial investments flow	(12)	(15)	3
Dividends payment	(235)	(227)	(8)

Change in finance leasing contracts	(68)	(232)	164
Finance expenses, income taxes and other net non-operating requirements flow	(2,419)	(2,234)	(185)
Reduction/(Increase) in adjusted net financial debt from continuing operations	(189)	2,197	(2,386)
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale		(38)	38
Reduction/(Increase) in adjusted net financial debt	(189)	2,159	(2,348)

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.
In addition to what has already been described with reference to EBITDA, the change in adjusted net financial debt for 2017 was particularly impacted by the following:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	2017	% of total	2016	% of total	Change
Domestic	4,551	79.8	3,709	76.1	842
Brazil	1,150	20.2	1,167	23.9	(17)
Adjustments and eliminations					
Consolidated Total	5,701	100.0	4,876	100.0	825
EBITDA Margin	*28.8*		*25.6*		*3.2pp*

Capital expenditures in 2017 totaled 5,701 million euros, up by 825 million euros on 2016. In particular:

the Domestic Business Unit posted capital expenditures of 4,551 million euros, an additional 842 million euros compared to 2016. Higher capex was driven by the outlay of 630 million euros to renew GSM frequency user rights and the fast-tracking of innovation expenditure for infrastructure development (+395 million euros compared to 2016). In particular, expenditure on network development and next-generation services accounted for 63% of total network expenditure in 2017 (+6.3 percentage points compared to 2016). The decrease in other types of expenditure continued thanks to the selectivity and attention given to capital allocation choices based on strategic priorities and profit optimization.

the Brazil Business Unit posted capital expenditures in 2017 of 1,150 million euros, down by 17 million euros on 2016. Without the impact of fluctuations in exchange rates, which amounted to 82 million euros, the change was a negative 99 million euros and mainly reflected lower expenditure for renewals of TLC licenses (-52 million euros) and for developments in Information

Technology projects (-47 million euros), following the strong growth recorded in 2016 due to the launch of new commercial offers and the introduction of the new billing system. Capital expenditure in network infrastructure in 2017 amounted to 806 million euros (-3 million euros at constant exchange rates compared to 2016), and was mainly aimed at developing the 4G mobile broadband network, reaching 3,003 towns (+1,748 compared to 2017), with a urban population coverage rate of 91.2%.

Change in net operating working capital

The change in net operating working capital for 2017 was a decrease of 126 million euros (decrease of 98 million euros in 2016). In particular:

the change in inventories generated a negative impact of 30 million euros; the management of trade receivables had a positive impact of 379 million euros, also thanks to the performance of the Brazilian Real, which resulted in an exchange rate differential of 118 million euros, without which trade receivables would have shown a change of 261 million euros;

the change in trade payables (-217 million euros) included a negative impact of almost 180 million euros due to the performance of the Brazilian Real; it also included the payment of around 257 million euros made by the Brazil Business Unit to the consortium that is carrying out the clean up of the 700 MHz spectrum, which the Business Unit purchased the user rights to in 2014;

other changes in operating receivables/payables (-258 million euros) included the effects of the increase in prepaid expenses related to the acquisition of TIM S.p.A. customers, which was partially offset by higher VAT payable.

Change in employee benefits

The change in employee benefits was driven mainly by provisions allocated in 2017 for non-recurring expenses, as reported earlier (689 million euros), offset by drawdowns totaling 177 million euros in relation to restructuring plans previously in place.

Sale of investments and other disposals flow

The item posted a positive balance of 33 million euros for 2017 and mainly reflected the sale of non-current assets during the normal operating cycle (17 million euros) and the collection of a deferred portion of the price of a non-controlling interest sold in previous years (13 million euros).

In 2016, the item posted a positive figure of 745 million euros and essentially related to the sale of the Sofora Telecom Argentina group on March 8, 2016.

Share capital increases/reimbursements, including incidental costs

These totaled 16 million euros in 2017 and essentially consisted of contributions from an external shareholder of the Group for new capital issued by a subsidiary.

In 2016, the item amounted to 1,304 million euros and included the effect of the conversion of the Mandatory Convertible Bond into TIM shares for 1,300 million euros of November 2016.

Financial investments flow

In 2017, the item amounted to 12 million euros and included 4 million euros in subscriptions of new units issued by the Northgate Fund.

In 2016, this item amounted to 15 million euros and included 6 million euros for the payment made by INWIT S.p.A., net of cash acquired, for the acquisition of the investments in Revi Immobili S.r.l., Gestione Immobili S.r.l. and Gestione Due S.r.l., 5 million euros for the subscription of the capital increase in the company Northgate held as a non-controlling interest, and 4 million euros for the payment made, net of cash acquired, for the acquisition of the equity interest in Noverca S.r.l..

Change in leasing contracts

In 2017, the item totaled 68 million euros, of which:

- 54 million euros referred to the Parent Company, mainly in relation to new leases on industrial vehicles and the renegotiation of property leases;

- 14 million euros referred to the Brazil Business Unit, in relation to the lease-back of parts of telecommunications towers.

In 2016, the item amounted to 232 million euros and essentially referred to contractual renegotiations by TIM S.p.A. within the real estate transformation project, new rental agreements made by TIM S.p.A. for industrial vehicles, and a finance lease entered into by the Tim Brasil group on telecommunication towers.

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Finance expenses, income taxes and other net non-operating requirements flow

The item amounted to 2,419 million euros and mainly included payments, during 2017, of income taxes (1,100 million euros), net finance expenses, as well as the change in non-operating receivables and payables.

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Net financial debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	19,981	20,369	(388)
Amounts due to banks, other financial payables and liabilities	5,878	7,656	(1,778)
Finance lease liabilities	2,249	2,444	(195)
	28,108	30,469	(2,361)
Current financial liabilities (*)			
Bonds	2,221	2,595	(374)
Amounts due to banks, other financial payables and liabilities	2,354	1,269	1,085
Finance lease liabilities	181	192	(11)
	4,756	4,056	700
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Gross financial debt	32,864	34,525	(1,661)
Non-current financial assets			
Securities other than investments		(1)	1
Financial receivables and other non-current financial assets	(1,768)	(2,697)	929
	(1,768)	(2,698)	930
Current financial assets			
Securities other than investments	(993)	(1,519)	526
Financial receivables and other non-current financial assets	(437)	(389)	(48)

Cash and cash equivalents	(3,575)	(3,964)	389
	(5,005)	(5,872)	867
Financial assets relating to Discontinued operations/Non-current assets held for sale			
Total financial assets	(6,773)	(8,570)	1,797
Net financial debt carrying amount	26,091	25,955	136
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(783)	(836)	53
Adjusted net financial debt	25,308	25,119	189
Breakdown as follows:			
Total adjusted gross financial debt	31,149	32,574	(1,425)
Total adjusted financial assets	(5,841)	(7,455)	1,614
(*) of which current portion of medium/long-term debt:			
Bonds	*2,221*	*2,595*	*(374)*
Amounts due to banks, other financial payables and liabilities	*1,371*	*670*	*701*
Finance lease liabilities	*181*	*192*	*(11)*

The financial risk management policies of the TIM Group are aimed at minimizing market risks, fully hedging exchange rate risk, and optimizing interest rate exposure through appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.

In addition, to determine its exposure to interest rates, the Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

To provide a better representation of the true performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a measure called Adjusted net financial debt has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net

financial debt excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 Fair Value Measurement from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

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Sales of receivables to factoring companies

Non-recourse sales of trade receivables to factoring companies finalized in 2017 resulted in a positive effect on net financial debt at December 31, 2017 of 2,000 million euros (1,091 million euros at December 31, 2016). The increase was driven by new revolving securitization programs (handsets, modems, and billed mobile) and by the identification of greater volume of receivables factored.

Gross financial debt

Bonds

Bonds at December 31, 2017 totaled 22,202 million euros (22,964 million euros at December 31, 2016). Their nominal repayment amount was 21,775 million euros, down by 642 million euros compared to December 31, 2016 (22,417 million euros).

Changes in bonds over 2017 are shown below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 2.500% maturing 7/19/2023	Euro	1,000	1/19/2017
Telecom Italia S.p.A. 1,250 million euros 2.375% maturing 10/12/2027	Euro	1,250	10/12/2017

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 545 million euros 7.000% (1)	Euro	545	1/20/2017
Telecom Italia S.p.A. 628 million euros 4.500% (2)	Euro	628	9/20/2017
Telecom Italia S.p.A. 750 million British pounds 7.375%	GBP	750	12/15/2017

(1) Net of buybacks by the Company of 455 million euros during 2015.
(2) Net of buybacks by the Company of 372 million euros during 2015.

With reference to Telecom Italia S.p.A. 2002 2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2017 was 204 million euros, up by 3 million euros compared to December 31, 2016 (201 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2017:

(billions of euros)		12/31/2017 Agreed	12/31/2017 Drawn down	12/31/2016 Agreed	12/31/2016 Drawn down
Revolving Credit Facility	expiring May 2019	4.0		4.0	
Revolving Credit Facility	expiring March 2020	3.0		3.0	
Total		7.0		7.0	

At December 31, 2017, TIM had two syndicated Revolving Credit Facilities of 4 billion euros and 3 billion euros expiring May 24, 2019 and March 25, 2020 respectively, both not yet drawn down. On January 16, 2018, the two Revolving Credit Facilities were closed and replaced by a new Revolving Credit Facility for a total of 5 billion euros, expiring in 5 years.

TIM also has:

- a bilateral Term Loan from UBI Banca (former Banca Regionale Europea) expiring July 2019 for 200 million euros, drawn down for the full amount;
- two bilateral Term Loans from Mediobanca, respectively for 134 million euros expiring in November 2019 and 75 million euros expiring in July 2020, drawn down for the full amount;
- a bilateral Term Loan from ICBC expiring July 2020 for 120 million euros, drawn down for the full amount;
- a bilateral Term Loan from Intesa Sanpaolo expiring August 2021 for 200 million euros, drawn down for the full amount;
- an overdraft facility with Banca Popolare dell Emilia Romagna for 250 million euros, drawn down for the full amount and repaid in full at expiry on February 15, 2018;
- an overdraft facility with Intesa Sanpaolo expiring December 2018 for 200 million euros, drawn down for the full amount;

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a bilateral Term Loan from Intesa Sanpaolo expiring December 2018 for 2 billion euros, not yet drawn down.
On December 21, 2017, TIM S.p.A. notified Mediobanca of its decision to exercise the early repayment option on the 150 million euro bilateral term loan expiring July 2020, with the full repayment of the residual principal of 75 million euros on January 3, 2018.

On January 16, 2018, TIM S.p.A. exercised the early repayment option on the 2 billion euro bilateral Term Loan with Intesa Sanpaolo expiring December 2018, with repayment made on January 17, 2018.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 7.75 years.

The average cost of the Group s debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, stands at approximately 4.8%.

For details on the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, see the Notes Financial liabilities (non-current and current) in the Consolidated Financial Statements as at December 31, 2017 of the TIM Group.

Current financial assets and liquidity margin

The TIM Group s available liquidity margin amounted to 9,568 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments for a total of 4,568 million euros (5,483 million euros at December 31, 2016);
- the new Revolving Credit Facility opened in January 2018 for 5,000 million euros.

This margin is sufficient to cover Group financial liabilities due at least for the next 24 months.

In particular:

Cash and cash equivalents amounted to 3,575 million euros (3,964 million euros at December 31, 2016). The different technical forms of investing available cash can be analyzed as follows:

- Maturities: investments have a maximum maturity of three months;
- Counterparty risk: investments by the European companies are made with leading banking, financial and industrial institutions with high credit quality. Investments by the companies in South America are made with leading local counterparties;

Country risk: deposits have been made mainly in major European financial markets.
Current securities other than investments amounted to 993 million euros (1,519 million euros at December 31, 2016). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They included 276 million euros of Italian treasury bonds purchased respectively by TIM S.p.A. (256 million euros) and Telecom Italia Finance S.A. (20 million euros), 524 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash, and 193 million euros of investments in two monetary funds by the Brazil Business Unit. The purchases of the above government bonds, which, pursuant to Consob Communication no. DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the TIM Group since August 2012.

In the fourth quarter of 2017, the adjusted net financial debt fell by 920 million euros on the September 30, 2017 figure (26,228 million euros); cash flow generated by the positive operating and financial performance covered the cash requirements to meet tax liabilities.

(millions of euros)	12/31/2017 (a)	9/30/2017 (b)	Change (a-b)
Net financial debt carrying amount	26,091	26,958	(867)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(783)*	*(730)*	*(53)*
Adjusted net financial debt	25,308	26,228	(920)
Breakdown as follows:			
Total adjusted gross financial debt	31,149	31,173	(24)
Total adjusted financial assets	(5,841)	(4,945)	(896)

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CONSOLIDATED FINANCIAL STATEMENTS   TIM GROUP

The TIM Group Consolidated Financial Statements for 2017 and the comparative figures for the previous year have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRS).

The accounting policies and consolidation principles adopted in the preparation of the Consolidated Financial Statements as at December 31, 2017 are the same as those adopted in the Consolidated Financial Statements as at December 31, 2016, except for the use of the new Standards and Interpretations adopted by the Group starting as of the Consolidated Financial Statements as at December 31, 2017, whose effects are described in the notes to the Consolidated Financial Statements as at December 31, 2017 of the TIM Group, to which the reader is referred.

The TIM Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; EBITDA margin and EBIT margin; and net financial debt carrying amount and adjusted net financial debt.

Moreover, the part entitled   Business Outlook for 2018   contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group s control.

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

There were no significant changes in the scope of consolidation in 2017.

The following changes in the scope of consolidation occurred during 2016:

TIMVISION S.r.l. (Domestic Business Unit): established on December 28, 2016;

Noverca S.r.l. (Domestic Business Unit): On October 28, 2016 TIM S.p.A. acquired 100% of the company;

Flash Fiber S.r.l. (Domestic Business Unit): established on July 28, 2016;

Sofora - Telecom Argentina group: classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale) was sold on March 8, 2016;

Revi Immobili S.r.l., Gestione Due S.r.l. and Gestione Immobili S.r.l. (Domestic Business Unit): on January 11, 2016, INWIT S.p.A. purchased 100% of these companies, which were subsequently merged by acquisition.

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Separate Consolidated Income Statements

(millions of euros)	2017 (a)	2016 (b)	Change (a-b) amount	%
Revenues	19,828	19,025	803	4.2
Other income	523	311	212	68.2
Total operating revenues and other income	20,351	19,336	1,015	5.2
Acquisition of goods and services	(8,388)	(7,793)	(595)	(7.6)
Employee benefits expenses	(3,626)	(3,106)	(520)	(16.7)
Other operating expenses	(1,208)	(1,083)	(125)	(11.5)
Change in inventories	35	9	26	
Internally generated assets	626	639	(13)	(2.0)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	7,790	8,002	(212)	(2.6)
Depreciation and amortization	(4,473)	(4,291)	(182)	(4.2)
Gains/(losses) on disposals of non-current assets	11	14	(3)	(21.4)
Impairment reversals (losses) on non-current assets	(37)	(3)	(34)	
Operating profit (loss) (EBIT)	3,291	3,722	(431)	(11.6)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	(23)	22	95.7
Other income (expenses) from investments	(18)	7	(25)	
Finance income	1,808	2,543	(735)	(28.9)
Finance expenses	(3,303)	(3,450)	147	4.3
Profit (loss) before tax from continuing operations	1,777	2,799	(1,022)	(36.5)
Income tax expense	(490)	(880)	390	44.3

Profit (loss) from continuing operations	1,287	1,919	(632)	(32.9)
Profit (loss) from Discontinued operations/Non-current assets held for sale		47	(47)	
Profit (loss) for the year	1,287	1,966	(679)	(34.5)
Attributable to:				
Owners of the Parent	1,121	1,808	(687)	(38.0)
Non-controlling interests	166	158	8	5.1

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Consolidated Statements of Comprehensive Income

In accordance with IAS 1 *(Presentation of Financial Statements*), the following Consolidated Statements of Comprehensive Income include the Profit (loss) for the year as shown in the Separate Consolidated Income Statements and all non-owner changes in equity.

(millions of euros)		2017	2016
Profit (loss) for the year	(a)	1,287	1,966
Other components of the Consolidated Statements of Comprehensive Income			
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		10	(33)
Income tax effect		(1)	7
	(b)	9	(26)
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(c)		
Total other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	(d=b+c)	9	(26)
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		63	46
Loss (profit) transferred to the Separate Consolidated Income Statements		(62)	(37)
Income tax effect		2	(2)
	(e)	3	7
Hedging instruments:			
Profit (loss) from fair value adjustments		(854)	(312)

Loss (profit) transferred to the Separate Consolidated Income Statements		826	(80)
Income tax effect		(3)	90
	(f)	(31)	(302)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(830)	852
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		19	304
Income tax effect			
	(g)	(811)	1,156
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Consolidated Income Statements			
Income tax effect			
	(h)		
Total other components that subsequently will be reclassified to the Separate Consolidated Income Statements	(i=e+f+g+h)	(839)	861
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	(830)	835
Total comprehensive income (loss) for the year	(a+k)	457	2,801
Attributable to:			
Owners of the Parent		527	2,534
Non-controlling interests		(70)	267

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Consolidated Statements of Financial Position

(millions of euros)		12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		29,462	29,612	(150)
Intangible assets with a finite useful life		7,192	6,951	241
		36,654	36,563	91
Tangible assets				
Property, plant and equipment owned		14,216	13,947	269
Assets held under finance leases		2,331	2,413	(82)
		16,547	16,360	187
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		17	18	(1)
Other investments		51	46	5
Non-current financial assets		1,768	2,698	(930)
Miscellaneous receivables and other non-current assets		2,422	2,222	200
Deferred tax assets		993	877	116
		5,251	5,861	(610)
Total Non-current assets	(a)	58,452	58,784	(332)
Current assets				
Inventories		290	270	20
Trade and miscellaneous receivables and other current assets		4,959	5,426	(467)
Current income tax receivables		77	94	(17)

Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,430*	*1,908*	*(478)*
Cash and cash equivalents		*3,575*	*3,964*	*(389)*
		5,005	5,872	(867)
Current assets sub-total		10,331	11,662	(1,331)
Discontinued operations/Non-current assets held for sale				
Total Current assets	(b)	10,331	11,662	(1,331)
Total Assets	(a+b)	68,783	70,446	(1,663)

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(millions of euros)		12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent		21,557	21,207	350
Non-controlling interests		2,226	2,346	(120)
Total Equity	(c)	23,783	23,553	230
Non-current liabilities				
Non-current financial liabilities		28,108	30,469	(2,361)
Employee benefits		1,736	1,355	381
Deferred tax liabilities		265	293	(28)
Provisions		825	830	(5)
Miscellaneous payables and other non-current liabilities		1,678	1,607	71
Total Non-current liabilities	(d)	32,612	34,554	(1,942)
Current liabilities				
Current financial liabilities		4,756	4,056	700
Trade and miscellaneous payables and other current liabilities		7,520	7,646	(126)
Current income tax payables		112	637	(525)
Current liabilities sub-total		12,388	12,339	49
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
Total Current Liabilities	(e)	12,388	12,339	49
Total Liabilities	(f=d+e)	45,000	46,893	(1,893)
Total Equity and Liabilities	(c+f)	68,783	70,446	(1,663)

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Consolidated Statements of Cash Flows

(millions of euros)		2017	2016
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,287	1,919
Adjustments for:			
Depreciation and amortization		4,473	4,291
Impairment losses (reversals) on non-current assets (including investments)		50	6
Net change in deferred tax assets and liabilities		(147)	38
Losses (gains) realized on disposals of non-current assets (including investments)		(11)	(15)
Share of profits (losses) of associates and joint ventures accounted for using the equity method		1	23
Change in employee benefits		437	(131)
Change in inventories		(30)	(10)
Change in trade receivables and net amounts due from customers on construction contracts		379	(310)
Change in trade payables		(605)	229
Net change in current income tax receivables/payables		(515)	581
Net change in miscellaneous receivables/payables and other assets/liabilities		80	(915)
Cash flows from (used in) operating activities	(a)	5,399	5,706
Cash flows from investing activities:			
Purchase of intangible assets		*(2,292)*	*(1,641)*
Purchase of tangible assets		*(3,477)*	*(3,467)*
Total purchase of intangible and tangible assets on an accrual basis		(5,769)	(5,108)
Change in amounts due for purchases of intangible and tangible assets		*455*	*450*
Total purchase of intangible and tangible assets on a cash basis		(5,314)	(4,658)

Capital grants received		82	
Acquisition of control in subsidiaries or other businesses, net of cash acquired			(10)
Acquisitions/disposals of other investments		(4)	(5)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		466	175
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			492
Proceeds from sale/repayment of intangible, tangible and other non-current assets		30	42
Cash flows from (used in) investing activities	(b)	(4,740)	(3,964)
Cash flows from financing activities:			
Change in current financial liabilities and other		(1,188)	(437)
Proceeds from non-current financial liabilities (including current portion)		2,630	3,561
Repayments of non-current financial liabilities (including current portion)		(3,426)	(4,164)
Change in hedging derivative and other derivative receivables/liabilities		997	
Share capital proceeds/reimbursements (including subsidiaries)		16	4
Dividends paid		(235)	(227)
Changes in ownership interests in consolidated subsidiaries		(4)	
Cash flows from (used in) financing activities	(c)	(1,210)	(1,263)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		(45)
Aggregate cash flows	(e=a+b+c+d)	(551)	434
Net cash and cash equivalents at beginning of the year:	(f)	3,952	3,216
Net foreign exchange differences on net cash and cash equivalents	(g)	(155)	302
Net cash and cash equivalents at end of the year:	(h=e+f+g)	3,246	3,952

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Additional Cash Flow Information

(millions of euros)	2017	2016
Income taxes (paid) received	(1,100)	(218)
Interest expense paid	(2,899)	(2,306)
Interest income received	1,636	934
Dividends received	1	8

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2017	2016
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents - from continuing operations	3,964	3,559
Bank overdrafts repayable on demand from continuing operations	(12)	(441)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale		98
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	3,952	3,216
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents - from continuing operations	3,575	3,964
Bank overdrafts repayable on demand from continuing operations	(329)	(12)
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		
	3,246	3,952

The additional disclosures required by IAS 7 commencing as of the current year are provided in the Note Net Financial Debt in the TIM Group Consolidated Financial Statements as at December 31, 2017.

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OTHER INFORMATION

Average salaried workforce

(equivalent number)		2017	2016	Change
Average salaried workforce	Italy	45,648	47,166	(1,518)
Average salaried workforce	Outside Italy	9,298	10,689	(1,391)
Total average salaried workforce [1]		54,946	57,855	(2,909)
Discontinued operations/Non-current assets held for sale - Sofora - Telecom Argentina group			2,581	(2,581)
Total average salaried workforce - including Discontinued operations/Non-current assets held for sale		54,946	60,436	(5,490)

1) Includes employees with temp work contracts: the average headcount was 2 in 2017 (1 in Italy and 1 outside Italy). In 2016, the average headcount was 4 (2 in Italy and 2 outside Italy).

Headcount at year end

(number)		12/31/2017	12/31/2016	Change
Headcount	Italy	49,689	51,125	(1,436)
Headcount	Outside Italy	9,740	10,104	(364)
Total headcount at year end [1]		59,429	61,229	(1,800)

1) Includes employees with temp work contracts: no employees at 12/31/2017 and 4 employees at 12/31/2016.

Headcount at year end Breakdown by Business Unit

(number)	12/31/2017	12/31/2016	Change
Domestic	49,851	51,280	(1,429)
Brazil	9,508	9,849	(341)
Other Operations	70	100	(30)
Total	59,429	61,229	(1,800)

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SOCIAL AND ENVIRONMENTAL IMPACT OF OPERATIONS AND THEIR ECONOMIC ASPECTS

The changes in place at environmental and social level pose economic risks but also commercial opportunities for TIM, which plays a primary role in the affairs of the countries where it operates, by virtue of the increasing importance of communication technologies for people s lives. Further analysis was carried out in 2016 to determine the importance for the company of elements that are of interest to stakeholders (materiality analysis). This confirmed the opportunities linked to the digital transformation of companies, Public Administration and citizen services, made possible by the development of infrastructure and new technologies. The analysis also confirmed the significance of energy costs and brought attention to the reduction of greenhouse gases, to which the Group can contribute with products that allow businesses and families to reduce their energy consumption, and with services that cities can use to lower their emissions.

The following are a few cases in which social and environmental elements have direct economic impacts on TIM and, lastly, a description is provided of the materiality analysis, the details of which are provided in the Group s Sustainability Report.

IMPROVING THE EFFICIENCY OF ENVIRONMENTAL COSTS - REDUCING ENERGY CONSUMPTION

TIM is one of the biggest electricity users nationally, consuming around 1.8[1)] TWh of energy per year.

Technological developments continued in 2017, related mainly to the NGAN (Next generation fixed access network) implementation plan and LTE technology, are generally leading to an increase in energy consumption. 2017 in particular saw a significant boost given to the technological development of the fixed and mobile network and significant growth in new installations in the internal and external market in the field of Information Technology. These factors resulted in a significant increase in energy demand.

In Italy, this increase is estimated at around 190 GWh, offset by the savings made possible by a series of energy efficiency improvement measures undertaken in previous years, as well as new measures undertaken and completed during 2017, including, in particular, projects involving the replacement of obsolete equipment with new, more efficient systems. Overall, these measures, equivalent to savings of 200 GWh, have offset the increased demand from technological implementations and achieved a 10 GWh reduction in consumption. In economic terms, the saving can be estimated to be around 1.4 million euros over the course of the year.

In 2017, the self-generation of electricity through co-generation and tri-generation systems amounted to around 99 GWh, down on 2016 for technical reasons. In the next few years the plan is to take greater advantage of the potential of production from tri-generation plants.

The ISO 50001 certification of sites already certified in the past, that is Rozzano 1 and 2, Bologna Stendhal and Rome Parco de Medici, remained valid in 2017. The energy efficiency of TIM was also recognized through the awarding of Energy Efficiency Certificates (EEC, also known as White Certificates): at the end of 2017 the overall number of projects approved was 47, corresponding to an estimated economic value at current prices, over 5 years, of 47 million euros.

EFFICIENCY IMPROVEMENT PROCESS, SOCIAL COST OPTIMISATION ENGAGEMENT WITH WORKERS REPRESENTATIVES

TIM pays much attention to listening and involving workers representatives in many areas of work, including reorganization processes.

The search for constant dialogue and discussion with union representatives led to major agreements being reached, aimed at reconciling the needs of the business with those of the people who work in the company. This has allowed agreements to be reached for the implementation of efficiency improvement plans that can mediate between the needs of the workers and those of the company. For example, a complex negotiation process involving the leading trade union organizations was completed in late 2015 with the signing of a framework agreement to manage staff redundancies.

Like its predecessors, the agreement provided for the use of a mixture of integrated instruments and measures that are not socially traumatic but that are economically sustainable, including the use in 2016-2017 of Defensive Solidarity Contracts, as required by the Jobs Act, combined with the strategic role of the training lever, as a pivotal element to encourage professional retraining and requalification in order to counteract redundancies. Defensive Solidarity Contracts are agreements that provide for working hours to be reduced in order to avoid downsizing. For the workers to whom the contract will be applied, provision is made for INPS (Istituto Nazionale della Previdenza Sociale) to make up part of the remuneration not received due to the reduction in working hours. In 2017 the benefit on the cost of labor obtained from solidarity contracts was 117 million euros for the Group (118 million euros in 2016), all relating to the Parent Company.

The other instruments agreed between the Parties, such as the mobility provisions of Law 223/91 and article 4 of the Fornero Law[1], are in any case of a voluntary nature.

(1) This does not include the electricity used by OLOs.
Law 92/2012 www.gazzettaufficiale.it/eli/id/2012/07/03/012G0115/sg

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The 2018 2020 Business Plan and the respective HR Management Plan were presented and discussed with the trade unions. The personnel guidelines will be aimed at adopting measures intended to support the corporate transformation process that awaits the company in terms of the digitalization of processes and services.

GROWTH OPPORTUNITIES

ICT services for environmental protection and improving citizens quality of life are seeing positive growth rates and are likely to be widespread in the future. TIM customers already have a range of solutions available to them to cut energy consumption, reduce CO2 emissions, facilitate bureaucracy, and increase security for citizens. The services offered by TIM (described at impresasemplice.it) on the environmental front include the positive trend of TIM ENERGREEN, the energy management service platform which allows businesses and public organizations to monitor their consumption and manage it efficiently and effectively through locally placed sensors. The energy saved can be estimated at around 10% if the Metering & Reporting function alone is implemented.

For TIM ENERGREEN alone, sales in 2017 were around 871,000 euros, with an increase of 34% compared to 2016. The Lighting Suite solution, which was merged into the broader SMART Lighting offer on 30 October 2017, recorded a turnover of 170,000 euros.

The Urban Security service - management of participated security and control of urban territory - achieved a turnover of around 300,000 euros in 2017.

The market for videoconferencing([1]) solutions, which recorded a turnover of 7 million in 2017, remains very lively. Available in different commercial formulations, suitable for the requirements of small, medium and large companies, with service levels and quality standards ranging from High Definition to telepresence, videoconferencing services reduce the amount of travel, and therefore CO_2. Web-based solutions in particular are increasing both the availability of videoconferencing services among SMEs and their penetration among larger companies, contributing to reducing emissions.

Telemedicine services, like other online services, reduce travel for medical visits.

Many other vertical solutions are also available on the market that directly or indirectly contribute to reducing consumption and emissions by optimizing and improving the efficiency of activities. For example, fleet location services which, by using GPS satellite location and integrated tools for managing commercial vehicle fleets and planning movements, allow cost and fuel consumption to be optimized.

MATERIALITY ANALYSIS

In 2017, in compliance with the requirements of the Global Reporting Initiative Standards, TIM conducted a materiality analysis with the aim of identifying the material topics as regards the socio-environmental and economic impacts of the business activities both within and outside the company.

Process to identify the material topics

In keeping with the digital transformation launched within the company, in 2017 semantic analysis2 methodologies were used to analyze a large number of information sources in order to intercept and map the material topics of the sector and big data analysis was introduced to collect external points of view.

The first activity carried out was the definition of the correct taxonomy[3] to be used in the semantic engine and, thereafter, in the big data analysis. The taxonomy used by TIM was created on the basis of different references in the fields of sustainability and digital. Specifically:

Global Reporting Initiative Standard, ISO26000, Sustainable Development Goals and specialist assessments[4];

The Italian Digital Agenda, Objectives of the European Digital Single Market and dedicated indexes[5].

The semantic engine analyzed all the national and international sources of information, public and non-public sources, internal and external to TIM[6] with different interactions leading to the definition of a list of topics based on the occurrences[7] found in the various documents and establishing hierarchies between the topics. The material topics of the sector were identified through the occurrences, which were compared with the topics that emerged from the 2016 tree .

At the end of this initial screening, the company was able to draw up a list of topics representing the following macro areas:

correctness of corporate conduct

impact on the region and community in which the company operates

strategies and responsible management of the supply chain

management of the workforce and development of internal employment

1 Relating to the STD IntoucHD offer

3 Each taxonomy is made up of interrelated concepts and keywords with different correlation and significance levels. Each taxonomy was constructed using both Italian and English terms.

4 For example RobecoSam (Dow Jones Sustainability Index), FTSE4good and Sustainalytics questionnaires.

5 For example, the Digital Economy Society Index which monitors different aspects of the digitization level of the individual European countries.

6 For example: The Piano Nazionale italiano per l Agenda 2030 (Italian National Plan for the 2030 agenda) of the Italian government, the Ernst & Young Megatrends report 2015 , the Fair and Sustainable Well-Being in Italy

2016 (BES) report promoted by the National Council for Economy and Labor (CNEL) and the National Institute for Statistics (ISTAT).

[7] The occurrences identify the number of times that a concept (or a specific term) is detected within the document by the semantic engine and provide an indication of the significance of the topic detected in the context of the document.

- management of the health and safety of workers
- service quality, customer relations, protection of vulnerable categories
- safeguarding privacy and personal data security and protection
- environmental protection
- geographic and social digital inclusion
- support in the development of inclusive, sustainable education and digital skills
- development of digital infrastructures with new generation, UBB and LTE networks
- management and reduction of negative impact on human rights with dedicated actions

In order to obtain the significance of the material topics for the company, an internal questionnaire was given to a significant sample of representative contact people from all the company s departments.

This approach has enabled TIM to:

- extend listening to more stakeholders;
- making the observation of the topics dynamic in order to measure their evolution over time.

Results at a glance

At the end of the analysis, TIM attributed a relevance score based on the occurrence of the topics[1].

The activity resulted in the following materiality matrix::

Service quality, customer relations, protection of vulnerable categories (including minors) and Safeguarding privacy and personal data security and protection were confirmed as important topics for both stakeholders and the company. This year environmental protection is one of the significant topics due to the important contribution TIM can provide both with its solutions as a leading company in ICT and through its adoption of strategies and policies to contain its

energy consumption and greenhouse gas emissions.

The materiality matrix, in addition to highlighting Telecom Italia s priority areas of commitment, also reflects the Sustainable Development Goals (SDGs)[2] to which the Company believes it can make the biggest contribution.

1 Scores ranged from 1 to 5, where 1 is the minimum frequency, 5 the maximum frequency, 3 the average frequency (calculated from the average occurrence of the topics taken into consideration). 2 and 4 are attributed in proportion to the minimum, average and maximum scores. Finally, the final score was calculated, weighted by the significance attributed to each source according to the different time periods covered in the analysis.

2 At the end of 2015, the government leaders of the 193 UN Member States approved the Transforming our world: the 2030 Agenda for Sustainable Development resolution, a policy document that identifies 17 global objectives (Sustainable Development Goals), broken down into 169 detailed targets to be achieved by 2030. The Sustainable Development Goals represent common objectives in key areas to ensure the sustainable development of the planet, such as ending hunger and poverty, the protection and conservation of water resources, the production of clean energy, raising awareness about responsible and conscious consumption, promoting access to healthcare and education, and reducing economic and gender inequality.

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Specifically, the relevant Goals are:

- No. 3: Good health and well-being
- No. 4: Quality education
- No. 5: Gender equality
- No. 7: Affordable and clean energy
- No. 8: Decent work and economic growth
- No. 9: Industry, innovation and infrastructure
- No. 10: Reduced inequalities
- No. 11: Sustainable cities and communities
- No. 12: Responsible consumption and production
- No. 13: Climate action
- No. 16: Peace, justice and strong institutions

Validation and Review

The validation of the topics and of the entire materiality analysis process was carried out by the Sustainability Reporting, Monitoring and Relationship (SRMR) division of the Administration and Financial Reporting Department, with the support of RE2N, a company that develops innovative tools for sustainability and Shared Value, and TIM Data Room. The review phase is due to take place as a preparatory stage prior to the next reporting cycle, with the aim of submitting the results of the analyses carried out, updated in the following year, to specific stakeholder engagement activities.

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RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT IN ITALY

Approach to innovation, choice of topics, innovation governance process

Innovation understood as a research and development activity for innovative technologies and services, processes and business models represents a key factor in the company s ability to keep up with the profound transformations brought about through ICT, as well as a necessary asset acting as a driving force in this evolution in terms of its customers (both residential and business) and the national system, helping to overcome the socio-cultural barriers that limit the opportunity to participate in the information society and enjoyment of the relative benefits.

TIM has always considered innovation to be a strategic asset and takes great care in governing individual aspects, from its strategic role to its responsibility, objectives and policy.

In terms of role, both technological and business-based innovation are also confirmed in 2017 as the central element to the response to change in the technological, market and competitive context. In line with this, the Group has taken action in several ways:

- by continuing the action, started in 2016, to strengthen internal innovation lines, focusing laboratory activities and research groups on key aspects of the development of the fixed and mobile network towards future 5G standards and ultrabroadband, and issues concerning service platforms and new operations systems;
- by confirming the trend towards the Open Innovation principle with the aim of maximizing the benefits deriving from the integration of innovative contributions generated internally with external sources of innovative ideas.
- interaction with the start-up world in order to catalyse the latter s capacity for innovation through the TIM #Wcap acceleration programme and equity investments through TIM Venture. In 2017, TIM #Wcap launched a Call for Start-ups and two Calls for Partners;
- implementing initiatives which allow for the growth of co-creation ecosystems like the IoT Open Lab, a laboratory dedicated to the development of IoT solutions based on key technologies for the Telco Operator with a view to open innovation.

More details are provided on the following pages

Innovation management is overseen, with different missions, by the Innovation Department and by engineers, but involves various internal and external stakeholders of the company:

- other areas of the company involved from time to time, both as internal customers for the innovation output solution and as centres of expertise on the topic;
- traditional and digital partners, for the joint Go2market of digital services;
- research centres and universities, for cooperation and joint projects. In 2017, 22 research contracts came into effect, for a total value of 555,000 euros;
- Standardization Bodies and Associations: TIM is still very active within the main Standardization Bodies and Associations, with 30 memberships in 2017, for a cost of 840,000 euros. On a national, but above all international, level there is a broad circle made up of standardization bodies (ETSI, ITU, CENELEC and 3GPP among others), associations (GSMA and NGMN to name the major ones), alliances (oneM2m and BBF), and telco open communities (ONF, OPNFV and CORD), which play a fundamental role in the evolution of the TLC industry for networks, platforms and services. Finally, there are the Ministries (Ministry of Economic Development and Ministry of Education, Universities and Research), the European Union and public authorities (CNR and local authorities) for projects funded through participation in competitive tenders, and partnership initiatives.

The identification of themes around which projects are developed takes into account the Three-Year Technological Plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services. Published annually, following a wide-ranging process involving all the areas of the company involved, the Plan identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company s strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

The qualitative and/or quantitative objectives of each project may refer to a multi-year timeframe but they are in any case structured on an annual basis and defined so they can be objectively measured in compliance with standards concerning quality (ISO9001) and the environment (ISO14001); the operational processes of innovation, just as in general TIM s processes are based on the E-Tom reference standard of the TMF.

Overall, in 2017 TIM committed around 1,300 people to working on technological innovation and engineering activities, for an overall investment of 1,992 million euros, which is equivalent to around 13% of its domestic revenues.

Activities for the future of mobility and networks: initiatives for 5G

5G allows for not only faster speeds than those possible with earlier technologies, but also a multitude of services with very different requirements, in particular in the mMTC[1] and URLLC[2] areas.

TIM has followed the development of 5G from 2012, actively participating in the definition of international standards as well as European consortia and projects which laid the foundations for the system and contributed to the introduction of innovative use cases and applications. In particular, TIM participated in the European Horizon 2020 METIS and METIS II projects included in the 5GPPP European initiative and in another 12 projects concerning all the main technological turning points of 5G, collaborating with the main providers of network technologies and terminals through specific MoUs.

[1] Massive Machine Type Communication
[2] Ultra Reliable and Low Latency Communications

The operational activities for technological development and 5G trials are accompanied by structured technical communication ranging from publishing to promotion with events of a scientific scope. In particular, in 2017 the technical communication initiative Special 5G was accomplished through 5G day, a sharing event with representatives from institutions and the industrial world, in addition to academic research, aimed at promoting the business ecosystem for the development of 5G solutions. It was followed up by TIM s Notiziario Tecnico (Technical Newsletter) e-magazine [1] which dedicated two issues to describing and further exploring network aspects and service aspects, respectively, enabled by 5G.

Three important initiatives were launched in 2017 - Turin 5G, San Marino 5G and Bari-Matera 5G - to provide these municipalities with 5G radio mobile coverage.

IoT Open Lab

In November 2016 TIM opened the IoT Open Lab, which became fully operational in 2017, at its base in Turin. Its purpose, according to the methods inherent in Open Innovation, is to support the development of IoT solutions based on key technologies for Telco Operators. In particular, the IoT Open Lab acts as a business accelerator to support companies in entering the ecosystem of technologies standardized by the 3GPP and, as regards the current period, Narrow Band IoT technologies. As of today more than 130 companies and customers have visited the Lab, and among them around forty construction companies have agreed a partnership with TIM allowing them to use what the Lab offers free of charge.

Research with Universities

The Open Innovation activities (understood as R&D participatory behaviour) for 2017 were largely concentrated on the new Innovation model pursued at TIM and guided by top management.

In line with this, faced with significantly lower polarization on services, communities and creative innovation, the focus was placed on technological innovation aspects, with particular emphasis on opportunities deriving from 5G. The new direction involved the resizing of the JOLs (closure of Pisa and Milan, resizing of Trento and Catania), and the activation in the remaining JOLs of projects with a strong technological approach: cognitive computing, 5G, applications in the network sector, industrial IoT applications, the strengthening of pre-commercial initiatives associated with Open IoT Lab, above all to Olivetti s benefit.

Funded research activities

TIM has always actively participated in innovation and research projects and initiatives funded by the European Commission, which allowed it not only to obtain funding of around 8 million euros in the three-year period 2015-2017, but also to participate in initiatives with highly innovative content where it developed and consolidated its know-how in rapidly evolving sectors, thanks to collaboration with important European research centres, as well as North American, Korean and Japanese ones.

In this context the activities performed for the 5G projects funded should be highlighted, which have enabled TIM to enrich its range of skills, acquiring a role recognized at European level which now allows it to activate various 5G pilot projects in Italy well in advance of the expected timing.

Patents and Intellectual Property Rights

In addition to contributing to developments within the Company, TIM produces a significant number of patents: in the 2015-2016 period it filed over 120 patents. In order to maximize their value, a spin-up model was recently developed, that is the launch of start-ups that have received assets and the rights to use patents in exchange for equity options.

In 2017, the Group s portfolio of patents grew to include 25 new patents filed and several other proposals undergoing assessment. The patenting areas relate to the whole ICT sector, with areas of excellence in the mobile sector. In more detail:

- 3,136 patents owned by TIM as of November 2017 (of which 2,557 granted), relating to 609 patent categories;
- 254 patents resulting from collaboration with universities and research institutes since the collaboration was launched (1997).

Participation in a Patent Pool for LTE with a patent essential for the relative standard should also be noted. The Patent Pool acquired new participants over the course of the year (bringing the current total to 16 license-holders) and has granted several licenses. Also note the participation in the 2017 Techshare Day where TIM and the Politecnico di Torino made a selection of patents and technologies available to Italian SMEs with the aim of expanding the assessment of the research results and developing relations with the industrial sector.

RESEARCH AND DEVELOPMENT IN BRAZIL

The Innovation & Technology Department, headed by the CTO of TIM Brasil, is responsible for Research and Development (R&D) activities. Its main responsibilities are defining the technological innovation of the network, the evolutionary needs for new technologies and devices and the architectural guidelines together with the development of strategic partnerships, so as to exploit new business models and guarantee the evolution of the network infrastructure in line with the business strategy. The organizational structure of Innovation & Technology is currently made up of 28 people in the Networks area, including telecommunications engineers, electrics and electronics engineers, IT experts and other technicians of various origins, competences and experiences, who cover all innovative needs and provide support to R&D.

In terms of infrastructure, one important result was the establishment of TIM Lab, a multi-purpose test environment focusing on innovation, which is able to guarantee the assessment of innovative services, products and technologies, certifying their functional efficiency and performance and the development of new models and configurations, consolidating the innovation flow. TIM Lab plays a strategic role in providing support for the conduct of Credibility Test, Trials and Proof of Concept (POC), for the validation of the services in collaboration with the main suppliers of technology and partners, through the sharing of knowledge and the technological infrastructures for interoperability tests, the assessment of capacity and the definition of technical requirements; in synergy with the R&D department, it facilitates innovation and promotes collaborations with universities and research institutes.

[1] Quarterly webzine with a technical educational slant, which since 1992 publishes detailed articles on technological innovations and services for Digital Life. A magnifying glass on transformation in the ICT world, where competitive

collaboration between Telcos and OTTs facilitates new business scenarios, creating dynamic ecosystems in which TIM plays a key role. TIM s Notiziario Tecnico (Technical Newsletter) is duly registered at the Press Court of Rome - Online Publications section since 05/07/2012 under no. 217/2012.

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In January 2017, a new TIM Lab Innovation Centre was opened (at the Corporate Executive Offices complex) in Barra da Tijuca, in the state of Rio de Janeiro: a building with a surface area of 650 square meters, able to accommodate more than 60 people. This new office could host technicians and researchers and be seen as a space of innovation open to new opportunities and the development of innovation for the Brazilian telecommunications market, also operating as a national reference point for R&D activities.

In 2017, more than 180 validation and innovation projects were concluded. Moreover, new technological areas, such as transport and fixed access solutions, were included in the range of initiatives relating to innovation and R&D. In this regard, over 22 million reais were invested in the 2016/17 period, including the new lab premises, and, according to the 2018-2020 budget, additional investments worth 17 million reais are planned.

The Innovation & Technology department has worked on projects and initiatives aiming to ensure the evolution of the business of TIM Brasil through the recommendation of sustainable, efficient network platforms and disruptive models, including anticipating the availability of new services. These projects can be divided into five groups:

- New generation networks
- Future Internet applications
- Positive environmental impacts
- Positive social impacts
- Open Lab initiatives

New generation network projects

The reassignment of the 1.800 MHz, 850 MHz and 2.100 MHz bandwidths from 2G/3G to 4G gives TIM Brasil three important competitive advantages:

- reduction of costs for LTE deployment;
- expansion of the LTE coverage area and activation of the Carrier Aggregation strategy, improving the customer experience through higher throughputs ;
- improved indoor coverage. In addition to the expansion of coverage, use of the 850/1.800/2.100 MHz bandwidths could increase the capacity in cities already covered by the LTE bandwidth at 2.6 GHz, at limited additional cost.

Another important consideration in this scenario is that over 88% of current LTE terminals are already compatible with the 1,800 MHz and 2,600 MHz bandwidths, and with the other bandwidths available; hence, implementation of

the LTE multilayer is proving to be an excellent strategy that benefits from the dissemination of devices.

The deployment of the LTE 700 MHz layer will result in significant expansion of the coverage and indoor penetration, promoting the presence of LTE throughout the national territory and consolidating TIM Brasil s leadership in LTE. The actual roll-out will follow the rules dictated by the EAD[1] () in order to manage the spectrum cleaning and avoid interference problems with the analogue TV transmission service. 78% of the LTE devices used by the current users of TIM Brasil services are enabled for the 700 MHz bandwidth.

At the end of 2017, over 830 cities could test the LTE 700 MHz coverage.

In 2015, as part of the IP Multimedia Network Evolution, three tests were carried out at the Innovation Lab to assess the IMS[2]. In 2016 the tests were extended to live networks, allowing TIM Brasil to set up the functional infrastructure to provide services such as Voice over LTE (VoLTE), Video over LTE (ViLTE) and Wi-Fi Calling, entirely laid on IP and activated by an IMS platform. In July 2017 TIM launched VoLTE high definition voice call services on the market, providing call services without the need to pass through switched lines. At the end of 2017, over 1,000 cities could use this service.

As regards the Network Functions Virtualization (NFV) and Software Defined Networks (SDN), some initiatives were launched, such as the creation of the TIM Brasil NFV Program, developed through four working groups which have a mandate to define technical requirements, infrastructural plans, roadmaps of the virtualised network functions (VNF), open lab specifications and reference architecture compliant with the ETSI standard on NFVs. The main drivers that push the adoption of these innovative network approaches are reduction of the CapEx/OpEx, faster time to market, optimization and boosting innovation.

Projects with positive environmental impacts

The expansion of 4G RAN sharing , in partnership with other Brazilian mobile operators, aims to define the architectural requirements, technical assumptions and specifications for the LTE RAN sharing solution, optimising the network resources and costs. In this regard, TIM has pursued and considered RAN Sharing Solutions since 2007. Another strong motivation lies in coverage issues and timing in compliance with regulatory requirements. The RAN Sharing agreement allows TIM to promote the evolution of LTE development in rural areas of Brazil, with effective sharing of access and backhauling. At present 4G RAN Sharing relies on two national partners, improving the possible benefits and efficiencies of this technical model.

Following continuous testing activities, savings and energy efficiency solutions were introduced, which primarily concern the low traffic periods for the 2G, 3G and 4G access layers. The energy consumption recorded for the site, dependent on the access technology and coverage conditions, showed a reduction of up to 10%. At present, this is the biggest RAN Sharing agreement to be reached worldwide and it allows the major Brazilian cities to use 4G services.

1 Entidade Administradora de Processo de Redistribuição e Digitalização de Canais de TV e RTV

2 SMI: IP Multimedia Subsystem, solutions focused on functional tests, specific analyses and interoperability with the so-called legacy system

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New generation network projects - Future Internet applications - Positive environmental impact - Positive social impact

According to TIM Brasil, the large-scale introduction of IoT could drastically change the mobile market in that it exploits the creation of services and represents a potential tool for agricultural applications, connected vehicles, tracking solutions, and social and healthcare support. In 2017 TIM invested in TIM Lab and in the E2E sector, improving existing smart parking applications and activating the connection of new applications, preparing the terrain for future NB-IoT and LTE-M commercial networks.

Open Lab initiatives

In 2017 TIM Brasil joined the Telecom Infra Project (TIP), an initiative founded by Facebook, SK Telecom, Deutsche Telekom, Nokia, Intel and other companies, which aims to identify new approaches to the creation and deployment of telecommunications network infrastructure. TIM Brasil has transformed TIM Lab into the first TIP Community Lab in Latin America, which will be used by TIP members to create universal standards relating to solutions, initially for transport networks, in order to overcome the challenges linked to the interoperability of the different providers. This initiative represents an open and collaborative approach to the development and testing of new technologies and solutions.

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CONSOLIDATED NON-FINANCIAL STATEMENT

TIM, as a Relevant Public Interest Entity (PIE), has, since the financial year 2017, prepared and presented a Consolidated non-financial statement as a separate report , as provided for by article 5 *Statement positioning and disclosure regime* of Legislative Decree 254/2016 on the disclosure of non-financial information and diversity information by some companies and some large groups. Moreover, a report (statement) issued by the appointed external auditor pursuant to article 3, subsection 10 of Legislative Decree 254/2016 is annexed to the Consolidated non-financial statement ; the assignment was given to PwC S.p.A..

The Consolidated non-financial statement is available in the sustainability section of the website www.telecomitalia.com.

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EVENTS SUBSEQUENT TO DECEMBER 31, 2017

For details of subsequent events, see the specific Note Events Subsequent to December 31, 2017 in the Consolidated and Separate Financial Statements as at December 31, 2017 of the TIM Group and TIM S.p.A., respectively.

BUSINESS OUTLOOK FOR THE YEAR 2018

The TIM 2018 2020 Plan, and with it the DigiTIM project, marks a major break with the past, by leveraging digital innovation as the key element to emerge forcefully in the Gigabit Society.

The objective is to significantly raise digital engagement with customers increasing the use of self-care apps by 85% and reducing call center interaction by 30% and to boost convergence in the commercial offer by building on the leadership of the TIM network in terms of fiber, 4.5G and the adoption of 5G in 2020.

The new strategy will enable over 5 million new Fiber customers to be reached in the Consumer segment over the horizon of the Plan, thanks to new video, music and gaming content, while in the Mobile segment LTE penetration is expected to rise from a current 76% to over 95%. TIM also aims to triple its TIMVISION customers (1.3 million in the Fixed-line segment at the end of 2017) and double the number of Fixed-line/Mobile convergent customers. These objectives build on entertainment content unlocked through major partnership deals with national and international players and the production and coproduction of original content.

In the Business segment, the focus on Fixed-line/Mobile/IT convergence, UBB and brand heritage will see the Group evolve into a major ICT company with distinctive positioning in the IT services sector, thereby consolidating traditional revenues. By 2020, ICT and Cloud revenues will count towards 25% of total revenues from the segment and the number of Fiber customers will triple.

Growth in the Wholesale segment will be driven by a greater focus on deregulated services than in the past, and by improving efficiency through new digital and automation tools.

Inwit will strengthen its leadership position through the expansion of the customer base and the spread of next-generation infrastructure.

The Sparkle group will instead focus on data services, building on growth in the market through the integration of Cloud, Data Center, network security and disaster recovery services into its portfolio and the consolidation of its offer of Voice and Mobile services. The geographical expansion of its infrastructure will also continue, taking the group into new countries.

In Brazil, the main drivers for growth will be migration towards post-paid Mobile, which today boasts 17.8 million lines, accounting for 30% of all customers, rapid growth in residential Fiber customers, and the fast-tracking of the 4G network.

The DigiTIM strategy aims to boost cash generation and create value through careful financial discipline, based on cost control and the optimization of capital expenditure. The use of data analytics will enable TIM to improve the efficiency of Capex by prioritizing higher value investments and leveraging the infrastructure of the existing UBB network and make efficiency inroads into 80% of Opex in Italy.

Over the horizon of the Plan, TIM will extend its Fiber network to reach 80% of homes in Italy and 100 cities across the country will be covered by FTTH technology, thanks to a cumulative Capex program of 9 billion euros, of which

over 50% will be targeted at expanding network infrastructure and innovation.

In Brazil, around 12 billion reais has been earmarked for capital expenditure over the horizon of the Plan, targeted at the continued expansion of UBB.

The main financial targets set accounting standards remaining the same as for 2017 include:

- TIM Group: an adjusted net financial debt to EBITDA ratio of approx. 2.7x by the end of 2018 and its continuing decline through 2019 and 2020;
- Domestic: stabilization of revenues from services and low single-digit growth in EBITDA C*agr* 2017 2020;
- Inwit and Brazil: growth in revenues from services and in margins.

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MAIN RISKS AND UNCERTAINTIES

Risk governance is a strategic tool for value creation. The TIM Group has adopted an Enterprise Risk Management Model based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report), which enables the identification and management of risk in a uniform manner across the Group companies, highlighting potential synergies among the actors involved in the assessment of the Internal Control and Risk Management System. The ERM process is designed to identify potential events that may affect the business, to manage risk within acceptable limits and to provide reasonable assurance regarding the achievement of corporate objectives.

The business outlook for 2018 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

In addition, there have been several major shifts, including, but not limited to, the change in the market environment, the entry of potential new competitors in the fixed-line and mobile segments,h the start of proceedings by Authorities, and the implementation of new business strategies in the multimedia segment. These risk factors may have repercussions which are currently unforeseeable in terms of the strategic choices adopted by the company and could have an impact, for example, on the ultrabroadband development plans, on the evolution model adopted in the multimedia market, and on competition in the mobile and fixed-line markets.

The main risks affecting the business activities of the TIM Group, which may impact, even significantly, the ability to achieve the objectives of the Group are presented below.

STRATEGIC RISKS

Risks related to macro-economic factors

The TIM Group s economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates. The European economy is growing at a faster pace than initially forecast, while even in Italy the economic recovery has strengthened. Figures for 2017 are expected to be very positive (+1.5% in GDP according to the latest estimates), outperforming the forecasts and among the strongest performances of the last 7 years. Government estimates forecast growth in 2018 is expected to continue at a similar rate. Macroeconomic indicators show that what was a patchy recovery is now spreading to all industrial sectors, including the services sector.

Confidence has significantly improved among consumers and businesses, which is reflected in the labor market, with both the labor force and the employment rate growing. The Italian macroeconomic scenario is therefore essentially favorable, but the country s position is still frail. High public debt remains a key problem and although the debt to GDP ratio is expected to decline in 2018, it will do so only gradually and continue to represent a risk factor for the Italian economy. Political instability may also pose a further element of risk.

On the Brazilian market, the expected results may be significantly affected by the macroeconomic and political situation. After eight quarters of GDP decline, marking the deepest and most profound crisis in its history, Brazil returned to growth in the first quarter of 2017 (+1%) with figures for the second and third quarters continuing the positive trend. Growth in GDP for 2017 is expected to reach 1.1%, with an acceleration forecast for 2018. The inflation rate has continued to fall (3.0% forecast for 2017 from 9.4% in 2016) and is in line with the central bank s targets (+4.5% +/-1.5 percentage points), while interest rates were cut to 7% in 2017. Household consumption has started to pick up again, benefiting from increased purchasing power due to lower inflation and the initial improvements in the labor market. Growth forecasts for the short and medium terms remain tied to pension reforms and the introduction of a more efficient public spending system. Optimism, however, continues to be overshadowed by political uncertainty and a troublesome labor market, with the double-digit unemployment rate persisting in 2017.

Risks related to competition

The telecommunications market is characterized by strong competition that may reduce market share in the geographical areas where the TIM Group is engaged as well as erode prices and margins. Competition is focused on innovative products and services and on the capacity to move towards higher levels of convergence in service and expand it to the content offering, but also on the price competition in both traditional and other services. The use of new technologies (IoT) and new knowledge and customer management tools (Big Data) represent enabling factors in the mitigation of competition risks, however failure to exploit these opportunities could become an additional element of risk.

In the area of infrastructure competition, the growth of alternative operators could represent a threat for TIM, particularly in the years of the Plan after 2017 and also beyond the Plan period.

Iliad S.A. has announced the launch a new mobile operator in Italy with the aim of acquiring 10 15% of the market, by adopting the strategies it has already used for the French market.

In addition, Open Fiber and Infratel announced their plans for the development of an ultra-broadband telecommunications network as an alternative to the TIM network, respectively in major Italian cities and in areas of market failure, opening up the possibility of a new wave of competition in those areas, with impacts for both the Wholesale and Retail segments.

Competitive risks in the Brazilian market lie in the rapid transition of the business model tied to traditional services and the potential consolidation of the sector. As the consumption patterns of consumers change (migration from voice to data services), service providers need to act swiftly in upgrading their infrastructure and modernizing their portfolios of products and services. In this context, the Tim Brasil group could be impacted by the need to upgrade its technologies and infrastructure rapidly and by greater competition, in the form of aggressive sales strategies and potential business combinations in the sector. At the same time, the deep economic and political crisis in the country has had a direct impact on consumption, especially in the Prepaid segment, where the Tim Brasil group holds the biggest market share.

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OPERATIONAL RISKS

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

Risks related to business continuity

The TIM Group s success depends heavily on the ability to ensure continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets. In particular, the Network Infrastructure and the Information Systems are sensitive to various internal and external threats: power outage, floods, storms, human errors, system failures, hardware and software failures, software bugs, cyber-attacks, earthquakes, facility failures, strikes, fraud, vandalism, terrorism, etc..

TIM has adopted a Business Continuity Model System framework in line with international standards, to analyze and prevent these risks.

Risks related to the development of fixed and mobile networks

To maintain and expand our customer portfolio in each of the markets in which the TIM Group operates, it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high quality network is necessary to maintain the customer base and minimize terminations to protect the Company s revenues from erosion. The maintenance and improvement of existing installations depend on our ability to:

- deliver network development plans within the time-frames contemplated by business development plans and with the necessary level of effectiveness/efficiency;
- upgrade the capabilities of the networks to provide customers with services that are closer to their needs; in this regard, the TIM Group may participate in tenders for broadcasting frequencies;
- increase the geographical coverage of innovative services;
- upgrade the structure of the systems and the networks to adapt it to new technologies;

sustaining the necessary level of capital expenditure in the long term.

Risks of internal/external fraud

The TIM Group has an organizational model in place to prevent fraud. In 2017, the model was further developed through a review of the organization. As a result of the review, Fraud Management was upgraded to report directly to the Security Director and a Fraud Governance and Prevention unit was implemented, which is separate from the operational units for the management and prevention of fraud and focuses instead on the planning and monitoring of objectives and the setting of anti-fraud rules. The organizational reforms are designed to ensure higher risk mitigation levels against illegal acts committed by people inside and outside the organization, which could adversely affect the Company s operating performance, financial position and image.

Risks related to disputes and litigation

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

FINANCIAL RISKS

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

The potential impact of Brexit will depend in part on the outcome of the negotiations on tariffs, trade, regulations and other matters, which started in the second half of June 2017 and are still underway. The outcome of the referendum had an adverse effect on global markets and also produced a sharp decline in the pound (which later recovered in part) against the dollar and the euro. Brexit and the possible changes during the exit negotiations could create further instability in the global financial markets and uncertainty about the laws and regulations of the European Union that the United Kingdom may decide to replace with national laws and regulations. The potential effects of Brexit could adversely affect our financial conditions, our business and the related earnings and cash flows.

TIM Group

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REGULATORY AND COMPLIANCE RISKS

Regulatory risks

The telecommunications industry is highly regulated. In this context, new decisions by the Communications Authority (AGCom) may lead to changes in the regulatory framework that may affect the expected results of the Group. More specifically, the main elements that introduce uncertainty are:

- lack of predictability in start-up timing and consequent new process decisions;
- decisions with retroactive effect (for example, price revisions for previous years as a result of judgments issued by the Administrative Courts);
- decisions that can influence the technological choices made and to be made, with potential impact on the timing of return on infrastructure investment.
- inadequacy in the implementation of processes and systems for the management of regulated services.

Compliance risks

The TIM Group may be exposed to risks of non-compliance due to non-observance/breach of internal (self-regulation, such as, for example, bylaws, code of ethics) and external rules (laws, regulations, new accounting standards and Authority orders), with consequent judicial or administrative penalties, financial losses or reputational damage.

The TIM Group aims to ensure that processes, and, therefore, the procedures and systems governing them, and corporate conduct comply with legal requirements. The risk is associated with potential time lags in making the processes compliant with regulatory changes or whenever non-conformities are identified.

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INFORMATION FOR INVESTORS

The Investor Relations service manages and develops relations with all TIM Group investors, including investment funds and SRI funds, retail investors and small investor associations, bondholders, equity analysts and credit analysts. The financial calendar for 2017 involved numerous events in various countries, as shown in the table below. The service organized conference calls on earnings announcements, international road shows, meetings at the company s corporate offices and delegations to industry conferences with Group investors. Over 550 events were held, involving our direct presence or via tele/video conferencing, in an effort to broaden the investor base in major international financial markets. In 2018, the financial calendar kicked off in January with an offsite event for analysts and Group investors and continued with an extensive roadshow program in March, which took Group top management to major financial markets in Europe and the United States (London, New York and Boston) to present the Group s 2017 earnings figures and the 2018 2020 Strategic Plan.

Financial Calendar for 2017

January 2017 Investor Relations offsite event in Rome	May 2017 (1st Quarter 2017 results) Annual General Meeting of Shareholders Investor conferences in Rome, Milan and London Roadshow in London	September 2017 Reverse Roadshow of meetings at Group corporate offices in Rome Encounters with sell-side analysts in London
February 2017 (2016 results and 2016 2018 Plan) Roadshows in New York, London, Amsterdam and Frankfurt to present 2016 earnings figures and the 2017 2018 industrial plan	June 2017 Investor conferences in London and Milan Roadshows in Tokyo, Hong Kong and Singapore Reverse Roadshow of meetings at Group corporate offices in Rome and Milan	October 2017 Encounters with sell-side analysts in Madrid, London and Paris

March 2017	July 2017 (2nd Quarter 2017 results)	November 2017 (3rd Quarter 2017 results)
Roadshows in Paris, Zurich, Geneva, Copenhagen, Stockholm, Edinburgh, Madrid, Chicago, Dallas, San Francisco and Los Angeles to present 2016 earnings figures and the 2017 2018 industrial plan	Roadshow in Dublin	Investor conferences in Barcelona and London

The topics of greatest interest to the financial community included:

- the stabilization over the year of Domestic service revenues and the confirmation of the low-single digit growth target for EBITDA in 2017;
- the major growth posted in revenues from services and EBITDA in Brazil;
- the progressive extension of the Fiber and 4G networks in Italy, enabling the earnings performance delivered;
- the continued financial discipline shown in the governance of costs and in the purchase of video content, especially at a time of radical developments in Pay-TV services;
- the acceleration of growth in FTTx lines and the major opportunity at hand to step up growth further by leveraging convergence offers;
- the ranking of the TIM Brand among the top 500 Global Finance Brands;
- the launch of DigiTIM, a program for the strategic facelift of the Company aimed at:
  - redesigning customer experience through improvements and the simplification of options and processes;
  - propping up TIM s market leadership and premium position by seizing new opportunities for growth;
  - improving cash flow generation to reduce debt and deliver greater value to shareholders;
  - developing the organization and shifting company culture from a siloed approach to one focused on results and flexibility.

more recently, the initiation of possible developments to legally separate the fixed-line access network and the potential improvements that could derive in terms of market regulation and competition.

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TIM S.p.A. SHARE CAPITAL AT DECEMBER 31, 2017

Share capital	11,677,002,855.10 euros
Number of ordinary shares (without nominal value)	15,203,122,583
Number of savings shares (without nominal value)	6,027,791,699
Number of TIM S.p.A. ordinary treasury shares	37,672,014
Number of TIM S.p.A. ordinary shares held by Telecom Italia Finance S.A.	126,082,374
Percentage of ordinary treasury shares held by the Group to total share capital	0.77%
Market capitalization (based on December 2017 average prices)	14,779 million euros

On May 25, 2016, the Shareholders Meeting approved amendments to the company name, introducing the name TIM S.p.A. as an alternative to Telecom Italia S.p.A.

TIM S.p.A. ordinary share and savings shares, as well as the ordinary shares of INWIT S.p.A. are listed on the Italian stock exchange (FTSE index), whereas the ordinary shares of Tim Participações S.A. are listed in Brazil (BOVESPA index).

	TIM-Telecom Italia			
code	ordinary shares	savings shares	INWIT	Tim Participações
Stock exchange	IT0003497168	IT0003497176	IT0005090300	BRTCSLACN0R0
Bloomberg	TIT IM	TITR IM	INW IM	TIMP3 BZ
Reuters	TLIT.MI	TLITn.MI	INWT.MI	TCSL3.SA

The ordinary and savings shares of TIM S.p.A., and the ordinary shares of Tim Participações S.A. are also listed on the NYSE (New York Stock Exchange); trading occurs through ADS (American Depositary Shares) that respectively represent 10 ordinary shares and 10 savings shares of TIM S.p.A. and 5 ordinary shares of Tim Participações S.A..

SHAREHOLDERS

Shareholder composition according to the Shareholders Book at December 31, 2017, supplemented by communications received and other available sources of information (ordinary shares):

There are no significant shareholders agreements for TIM pursuant to Article 122 of Italian Legislative Decree 58/1998.

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MAJOR HOLDINGS IN SHARE CAPITAL

Listed below are the significant shareholdings of TIM S.p.A. ordinary share capital at December 31, 2017, taking into account the entries in the Shareholders Book, communications sent to Consob and to the Company pursuant to Article 120 of Italian Legislative Decree 58 of February 24, 1998, and other available sources of information:

Holder	Type of ownership	Percentage of ownership
Vivendi S.A.	Direct	23.94%

COMMON REPRESENTATIVES

The special meeting of the savings shareholders held on June 16, 2016 renewed the appointment of Dario Trevisan as the common representative for three financial years, up to the approval of the financial statements for the year ended December 31, 2018.

By decree of June 9, 2017, the Milan Court confirmed the appointment of Enrico Cotta Ramusino (already appointed by the decrees of April 11, 2014 and March 7, 2011) as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the TIM Group, in service or retired , with a mandate for the three-year period 2017-2019.

By decree of June 12, 2015, the Milan Court appointed Monica Iacoviello as the common representative of the bondholders for the Telecom Italia S.p.A. 1,250,000,000 euros 5.375 percent. Notes due 2019 up to the approval of the 2017 Annual Report.

RATING AT DECEMBER 31, 2017

At December 31, 2017, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated TIM as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Positive
MOODY S	Ba1	Stable

FITCH RATINGS	BBB-	Stable

WAIVER OF THE OBLIGATION TO PUBLISH DISCLOSURE DOCUMENTS FOR EXTRAORDINARY OPERATIONS

On January 17, 2013, the Board of Directors of TIM S.p.A. resolved to exercise the option, as per article 70 paragraph 8 and article 71 paragraph 1-bis of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

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RELATED - PARTY TRANSACTIONS AND DIRECTION AND COORDINATION ACTIVITY

With effect from May 3, 2017, the Board of Directors of TIM amended the Procedure for the management of transactions with related parties, initially extending its scope on a voluntary basis and then adding the treatment of Vivendi as its Controlling Entity, from June 1, 2017.

On September 13, 2017, Consob declared that the relationship between Vivendi S.A. and TIM qualifies as one of de facto control under Article 2359 of the Civil Code and Article 93 of the Consolidated Finance Act, as well as under regulations governing dealings between related parties. Although the Company has challenged the decision, it nevertheless complies with the requirements entailed by the decision and, accordingly, has amended its Related-Party Transactions Procedure (September 28, 2017). The amended procedure now in force can be found on the website telecomitalia.com under the Governance System page of the Group section.

Meanwhile, on July 27, 2017, the Board of Directors also acknowledged the start of direction and coordination by Vivendi.

In exercising those powers:

- Vivendi S.A. has not jeopardized the interests or the assets of the Company in any way;
- dealings with Vivendi S.A. are conducted in compliance with applicable laws and regulations and transactions are conducted at arm s length, in application of the internal procedure governing related-party transactions, introduced as above.

The Board of Directors of TIM approved a specific policy to define how to treat the actions deriving from the Direction and Coordination Activity.

In accordance with Article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning related party transactions and the subsequent Consob Resolution no. 17389 of June 23, 2010, no significant transactions were conducted in 2017, as defined by Article 4, paragraph 1a of the aforementioned regulation, nor other transactions with related parties that had a major impact on the financial position or the performance of the TIM Group and TIM S.p.A. for 2017.

In addition, there were no changes or developments with respect to the related party transactions described in the 2016 Report on Operations which had a significant effect on the financial position or on the performance of the TIM Group and TIM S.p.A. in 2017.

Related party transactions, when not dictated by specific laws, were conducted at arm s length. In addition, the transactions were carried out in accordance with the internal procedure that establishes the terms and timing for verification and monitoring.

For more information on direction and coordination activities and on related-party transactions with the Controlling Entity Vivendi S.A., see the financial statements and Related party transactions and Direction and Coordination activity in the Notes to the Consolidated Financial Statements and the Separate Financial Statements.

The following decision have been influenced by direction and coordination activities from Vivendi S.A.:

Joint Venture with Canal+

On October 20, 2017, the Board of Directors of TIM examined and approved the binding term sheet by majority vote for the creation of a joint venture with Canal+, in accordance with regulations governing transactions with related parties of minor relevance and directed by others.

In short, as part of efforts to identify new growth opportunities, the Board of Directors believed the initiative to be consistent with the trend seen in other telcos and across the world on convergence with media and that a joint venture with one of the biggest media companies worldwide would assist in fast-tracking the spread of fiber, building on the commercial opportunities offered by the low penetration level of Pay TV and the expected growth in the broadband market in Italy.

Negotiations to reach a partnership agreement in the content sector were started up again on January 18, 2018, in view of the key importance placed on the convergent offer of video content under the TIM 2018 2020 Strategic Plan. In the light of the Consob decision, and in accordance with the observations made by the Board of Statutory Auditors of the Company, the procedure for significant related party transactions will apply, entailing the involvement in negotiations for the deal of a specific committee consisting of all the independent members of the Board of Directors.

Disposal of Persidera

As a condition attaching to the authorizations granted to Vivendi S.A. under the EU Merger Regulation, the European Commission asked Vivendi to commit to the disposal of the equity interests held by TIM in Persidera. To resolve the competition concerns identified, Vivendi accepted the commitment.

Persidera S.p.A. is engaged in the management of wholesale networks for television broadcasting. TIM S.p.A. currently holds a controlling interest in Persidera of 70% of the ordinary share capital; the remaining 30% is held by GEDI Gruppo Editoriale l Espresso.

On June 1, 2017, at the solicitation of Consob to consider the introduction of specific controls, the Board of Directors of TIM moved to voluntarily extend the controls in place for carrying out related-party transactions to all transactions concerning the equity investment in Persidera.

In September 2017, the Company s boards were informed that, consistently with the agreements in place between TIM and GEDI, preparatory work was being initiated for the process of raising the potential value of the asset. At the same time, it was notified that contacts had been made with the Monitoring Trustee (Advolis S.A.), appointed by Vivendi S.A. to monitor compliance with the conditions placed by the European Commission on the concentration.

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On September 28, 2017, the Board of Directors:

- in consideration of study findings on the industrial and legal aspects concerning the investment in Persidera and the relative asset group, authorized the start of the sale process, to be completed within a time frame as consistent as possible with the expectations of the European Commission;

- having acquired clarifications on the scope and binding effect (and their alignment with practice) of the requirements of the European Commission in relation to the engagement of the Monitoring Trustee, (i) authorized the appointment of Advolis as proxy to exercise voting rights at Persidera shareholders meetings, and (ii) approved the replacement of two directors of Persidera, originally designated by TIM, by two representatives of the Monitoring Trustee.

Subsequently, on February 23, 2018, having acquired the opinion of the Control and Risk Committee, the Board of Directors examined and produced a positive assessment of the acquisition bid for Persidera received from F2i and Rai Way, considering that the equity investment is not a strategic asset for TIM. The Board nevertheless reserves the right to consider any other binding offer that should be received.

Accordingly, special power of attorney for the sale was granted by the Chief Executive Officer to Advolis S.A., to enable and ensure its participation in the implementation of the Board s decision, which represents the purpose and the limit of the powers granted. The power of attorney was granted at the request of Vivendi S.A., under the legitimate exercise of its direction and control powers. Given that the power of attorney does not transfer to Advolis S.A. the governance of the process (which remains with the corporate boards of TIM), it was agreed that it was not in the interests of the Company to refuse the shareholder s request, which will facilitate dealings with the European Union without incurring financial charges for TIM or affect dealings with the partner in Persidera.

The attorney-in-fact will act in coordination with the Chief Executive Office of TIM, on the basis of the offer approved by the Board of Directors of the Company or any other binding offer duly approved in advance by the Board of Directors and in compliance with the procedure for related-party transactions, applied on a voluntary basis to all transactions concerning Persidera, acting at all times in the exclusive interests of TIM.

Secondments

Arrangements were initiated at the start of 2018 for the secondment of two managers from Vivendi S.A. to TIM S.p.A. under secondment agreements, as part of the reorganization process undertaken by the Company. The secondments respond to the Company s interest in acquiring people with consolidated skills and expertise, including in international contexts, to cover key positions.

The remuneration packages offered for the secondments are aligned with market practice. In one case, the secondment replaces a previous consultancy arrangement, the fees for which were not significant.

TIM Group

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ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in the Consolidated Financial Statements of the TIM Group and in the Separate Financial Statements of the Parent, TIM S.p.A., for the year ended December 31, 2017, in addition to the conventional financial performance measures established by IFRS, certain *alternative performance measures* are presented for a better understanding of the trend of operations and financial condition. Such measures, which are also presented in other periodical financial reports (half-year financial Report at June 30, and Interim Management Reports at March 31 and September 30) should, however, not be considered as a substitute for those required by IFRS.

The 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 assessing the operating performance of the Group (as a whole and at Business Unit level) and of the Parent, TIM S.p.A., 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[1]

+/- Share of profits (losses) of associates and joint ventures accounted for using the equity method[2]

EBIT - Operating profit (loss)

+/- Impairment losses (reversals) on non-current assets

+/- Losses (gains) on disposals of non-current assets

\+ Depreciation and amortization

EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

(1) Expenses (income) from investments for TIM S.p.A..
(2) Line item in Group consolidated financial statements only.

Organic change in 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 and exchange differences.

TIM believes that the presentation of the organic change in revenues, EBITDA and EBIT allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at Business Unit level) and of the Parent. This method of presenting information is also used in presentations to analysts and investors. This Report

on Operations provides a reconciliation between the reported figure and the organic figure.

EBITDA margin and EBIT margin: TIM believes that these margins represent useful indicators of the ability of the Group, as a whole and at Business Unit level, and of the Parent 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, respectively, into EBITDA and EBIT. 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 financial year being reported with those of the previous years.

Net Financial Debt: TIM believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Report on Operations includes two tables showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group and Parent respectively.

To better represent the real performance of Net Financial Debt, in addition to the usual indicator (called Net financial debt carrying amount), Adjusted net financial debt is also shown, which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

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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 assets/liabilities

E=(C + D) Adjusted net financial debt

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REVIEW OF KEY OPERATING AND FINANCIAL DATA - TIM S.P.A.

MAIN CHANGES IN THE CORPORATE STRUCTURE

The main changes in 2017 in the corporate structure of the Group concerned the merger by acquisition of TIM REAL ESTATE S.r.l. and of Olivetti Multiservices S.p.A. on October 1, 2017, with tax and accounting effect backdated to January 1, 2017.

The effects of the mergers on the financial position as at January 1, 2017 are shown in the following table.

(millions of euros)	TIM S.p.A. 1/1/2017	Olivetti Multiservices and TIM RE 1/1/2017	Merger adjustments	TIM S.p.A. post merger 1/1/2017
Assets				
Non-current assets	55,219	269	(43)	55,445
Intangible assets	30,913			30,913
Tangible assets	12,151	264		12,415
Other non-current assets	12,155	5	(43)	12,117
Current assets	6,482	77	(327)	6,232
Total Assets	61,701	346	(370)	61,677
Liabilities				
Equity	18,973	84	(39)	19,018
Non-current liabilities	31,907	3	(40)	31,870
Current liabilities	10,821	259	(291)	10,789
Total Liabilities and Equity	61,701	346	(370)	61,677

Non-recurring events

In 2017 and 2016, TIM S.p.A. recognized non-recurring operating expenses connected with events and transactions that by their nature do not recur as part of continuing operations, which are reported when their amount is material. Such expenses include corporate restructuring and reorganization expenses, expenses resulting from regulatory

disputes and sanctions and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

In detail:

(millions of euros)	2017	2016
Non-recurring net expenses		
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	8	1
Employee benefits expenses		
Expenses related to restructuring and rationalization and other expenses	692	130
Sundry expenses and provisions		
Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	176	25
Impact on EBITDA	876	156
Impairment losses on intangible assets	30	
Impact on EBIT	906	156

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OPERATING PERFORMANCE

(millions of euros)	2017	2016	Change amount	Change %
Revenues	14,099	13,670	429	3.1
EBITDA	5,801	6,304	(503)	(8.0)
EBITDA Margin	*41.1%*	*46.1%*	*(5.0)pp*	
EBIT	2,567	3,134	(567)	(18.1)
EBIT margin	*18.2%*	*22.9%*	*(4.7)pp*	
Profit (loss) before tax from continuing operations	1,398	2,319	(921)	
Profit (loss) from continuing operations	1,087	1,557	(470)	
Profit (loss) from Discontinued operations/Non-current assets held for sale		340	(340)	
Profit (loss) for the year	1,087	1,897	(810)	
Capital expenditures	4,095	3,396	699	
Net financial debt (*)	29,210	29,197	13	
Headcount at year end (number) (*)	44,281	45,907	(1,626)	

Revenues

Revenues amounted to 14,099 million euros, up by 429 million euros (+3.1%) on 2016. The growth figure continued a constant improvement trend driven, in particular, by growth in the broadband customer base, in both the Mobile and Fixed-line segments, and by the resilience of ARPU levels, thanks to the growing spread of Fiber and LTE ultra-broadband connection services and digital and ICT services. This was paired with growth in sales of smartphones, Smart TVs and other connected devices, which had a positive impact on the trend.

The sales segments show the following changes compared to 2016:

(millions of euros)	2017	2016	Change

Revenues	14,099	13,670	429
Consumer	7,659	7,299	360
Business	4,492	4,367	125
Wholesale	1,826	1,823	3
Other	122	181	(59)

In particular:

Consumer: revenues for the Consumer segment in 2017 amounted to 7,659 million euros, an increase of 360 million euros compared to 2016 (+4.9%), continuing the recovery begun in the previous year. In particular:

revenues for the Mobile segment rose to 3,886 million euros from 2016 (+137 million euros, +3.7%), driven especially by growth in mobile Internet and digital entertainment services, which propped up ARPU levels;

revenues for the Fixed-line segment amounted to 3,809 million euros, rising by 225 million euros compared to 2016 (+6.3%) and driven by growth in broadband and ultra-broadband customers and higher sales volumes of connected devices.

Business: revenues for the Business segment amounted to 4,492 million euros, up by 125 million euros on 2016 (+2.9%). In particular:

Mobile revenues in 2017 (1,177 million euros, +0.6% on 2016) showed positive growth on the previous year, driven by higher revenues from innovative services, which more than offset the continued decline in revenues from traditional services (as a result of the customer shift towards bundled offers with a lower overall ARPU);

Fixed-line revenues (3,384 million euros, +3.5% on 2016) rose by 114 million euros, with positive growth driven especially by products; the natural contraction in revenues from traditional services, connected with the technological shift towards VoIP systems and solutions, was nevertheless offset by constant growth in revenues from ICT services.

Wholesale: the Wholesale segment in 2017 posted revenues of 1,826 million euros, a figure substantially in line with 2016 (+0.2%).

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EBITDA

EBITDA totaled 5,801 million euros, showing a decline of 503 million euros (-8.0%) compared to 2016 (6,304 million euros); the EBITDA margin was 41.1% (46.1% in 2016).

EBITDA in 2017 was pulled down by non-recurring expenses for a total of 876 million euros, primarily connected with the corporate restructuring and reorganization plan. Without including the expenses, the change in EBITDA would have been a positive +3.4%, with an EBITDA margin of 47.4%, substantially in line with 2016. Further details are provided in the Note Significant non-recurring events and transactions of the Separate Financial Statements at December 31, 2017 of TIM S.p.A..

In particular:

(millions of euros)	2017	2016	Change amount	Change %
EBITDA	5,801	6,304	(503)	(8.0)
of which non-recurring income/(expenses)	(876)	(156)	(720)	
EBITDA excluding non-recurring component	6,677	6,460	217	3.4

The following elements also affected EBITDA:

Other income

Other income amounted to 459 million euros, showing an increase of 218 million euros on 2016 (241 million euros). Details are as follows:

(millions of euros)	2017	2016	Change
Late payment fees charged for telephone services	48	50	(2)
Recovery of employee benefit expenses, purchases and services rendered	20	22	(2)
Capital and operating grants	44	28	16
Damage compensation, penalties and sundry recoveries	33	22	11
Partnership agreements	84	44	40
Release of provisions and other payable items and other income	230	75	155

Total	459	241	218

Other income consisted of the impacts of contribution fees resulting from partnership agreements signed with leading technology suppliers, aimed at developing collaboration between the parties in order to strengthen and stabilize the business and industrial partnership over time, actively contributing to TIM s marketing plan for the development and use of several strategic services. The item also includes insurance indemnities and the impact of the revised estimate of liabilities towards customers and suppliers.

Acquisition of goods and services

Acquisition of goods and services amounted to 5,567 million euros, showing an increase of 516 million euros (equal to +10.2%) on 2016 (5,051 million euros). Costs for the acquisition of goods increased mainly due to higher purchasing volumes of equipment and handsets linked to the increase in product sales and to higher maintenance costs on owned assets.

(millions of euros)	2017	2016	Change
Acquisition of goods	1,566	1,259	307
Revenues due to other TLC operators and interconnection costs	681	668	13
Commercial and advertising costs	743	655	88
Professional and consulting services	86	83	3
Power, maintenance and outsourced services	1,123	1,009	114
Lease and rental costs	862	865	(3)
Other	506	512	(6)
Total acquisition of goods and services	5,567	5,051	516
% of Revenues	*39.5*	*36.9*	*2.6 pp*

Employee benefits expenses

Details are as follows:

(millions of euros)	2017	2016	Change
Ordinary employee expenses and costs	2,342	2,400	(58)
Restructuring expenses and allocations to employee and other provisions	692	130	562
Total employee benefits expenses	3,034	2,530	504

Employee benefits expenses increased by 504 million euros compared to 2016. The main factors that drove this change were:

a decrease of 58 million euros in ordinary employee expenses mainly as a result of the reduction in the average salaried workforce (-1,740 average employees). By contrast, in 2016, following the non-fulfillment of the conditions for the payment of the Results Bonus to employees, related accruals made in the 2015 financial statements were reversed;

the recognition of a total of 692 million euros of non-recurring expenses (provisions to Employee benefits and sundry expenses), of which 674 million euros connected with the commencement of the new company restructuring plan for TIM S.p.A., which will unfold over the entire period of the 2018 2020 Industrial Plan and is designed to support the digitization process by drawing on all measures provided by law. Specifically, the plan will involve, *inter alia*, the application of article 4(1 7) of Law 92 of June 28, 2012 (the Fornero Law) for executive and non-executive personnel (which provides for early retirement arrangements), as well as the use of measures for economic sustainability.

In 2016, a total of 130 million euros in provisions for non-recurring expenses were allocated, inter alia, for the application of Article 4 of the Fornero Law to management and non-management personnel and the management restructuring plan.

The headcount at December 31, 2017 amounted to 44,281 employees, a decrease of 1,626 compared to December 31, 2016 (45,907).

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Other operating expenses

Details are as follows:

(millions of euros)	2017	2016	Change
Write-downs and expenses in connection with credit management	303	260	43
Provision charges	153	50	103
TLC operating fees and charges	48	47	1
Indirect duties and taxes	63	63	
Penalties, settlement compensation and administrative fines	35	44	(9)
Association dues and fees, donations, scholarships and traineeships	12	15	(3)
Sundry expenses	44	38	6
Total	658	517	141

Other operating expenses, amounting to 658 million euros, rose by 141 million euros on 2016 (517 million euros), mainly driven by higher provisions for disputes. They included 176 million euros of non-recurring expenses (25 million euros in 2016), without which Other operating expenses would have fallen by 10 million euros.

Depreciation, amortization and capital expenditure

Depreciation and amortization amounted to 3,203 million euros, rising by 42 million euros compared to the previous year (3,161 million euros).

Depreciation of tangible assets rose by 65 million euros, net of adjustments made in 2016 for a total of 76 million euros for higher depreciation charges connected with the revised useful lives of NGAN and LTE equipment. Higher depreciation was mainly driven by investments to develop the optic fiber network and LTE mobile transmission equipment (resulting in additional charges of 40 million euros) and by higher depreciation charges as a result of new leases on industrial vehicles (approximately 10 million euros).

Amortization of intangible assets fell by 23 million euros, mainly due to a reduction in the software to be amortized.

Capital expenditures amounted to 4,095 million euros (3,396 million euros in 2016), rising by 699 million euros. The increase included 128 million euros of higher capex in tangible assets and 571 million euros of higher capex in intangible assets. In particular, the following is noted:

higher **capex in tangible assets** were mainly driven by the development of ultra-broadband infrastructure, both as concerns the fixed-line segment (in particular FTTCab technology) and the mobile segment (in particular LTE

technology);

higher **capex in intangible assets** were driven mainly by advances on intangible assets, following the investment of 630 million euros to obtain an extension, until December 31, 2029, on user rights to the 900 MHz and 1800 MHz bands (originally expiring as of June 30, 2018).

Gains (losses) on disposals of non-current assets

The item showed a loss of one million euros (loss of 6 million euros in 2016).

Impairment losses on non-current assets

Net impairment losses on non-current assets amounted to 30 million euros in 2017 (3 million euros in 2016) and referred to the write-down of software projects in progress that will no longer be used.

In preparing the Annual Report for 2017, the Company carried out an impairment test on the goodwill.

A more detailed analysis is provided in the Note Goodwill in the Separate Financial Statements as at December 31, 2017 of TIM S.p.A.

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EBIT

EBIT posted a positive 2,567 million euros, down by 567 million euros compared to 2016 (3,134 million euros). The EBIT margin rose from 22.9% in 2016 to 18.2% in 2017.

EBIT was pulled down by non-recurring net expenses totaling 906 million euros (156 million euros in 2016). Without these expenses, EBIT would have posted growth of 5.6%, a total 183 million euros, with an EBIT margin of 24.6%, up by 0.5 percentage points compared to 2016.

In particular:

(millions of euros)	2017	2016	Change amount	Change %
EBIT	2,567	3,134	(567)	(18.1)
of which non-recurring income/(expenses)	(906)	(156)	(750)	
EBIT excluding non-recurring component	3,473	3,290	183	5.6

Income (expenses) from investments

This item breaks down as follows:

(millions of euros)	2017	2016	Change
Dividends	255	54	201
Impairment losses on financial assets	(30)	(42)	12
Total	225	12	213

In particular, the following is noted:

- dividends mainly referred to the subsidiaries TI Finance (190 million euros), Inwit (53 million euros), Persidera (9 million euros) and Telecontact (2 million euros); dividends in 2016 mainly referred to the subsidiaries Inwit (34 million euros), Persidera (7 million euros), Telecontact (5 million euros) and to the company Emittenti Titoli (6 million euros);

- impairment losses referred primarily to write-downs of the investments held in the subsidiaries TN Fiber (16 million euros), and Olivetti (6 million euros), and in the associate Alfiere (7 million euros); in 2016,

impairment losses mainly referred to write-downs of the investments held in the associate Alfiere (23 million euros) and in the subsidiary Olivetti (18 million euros).

Finance income (expenses)

Finance income (expenses) showed a net expense of 1,394 million euros (expense of 827 million euros in 2016).

The performance was mainly driven by the absence of the positive impact, of 565 million euros, relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros and converted in November 2016 (Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A.);

Income tax expense

Income tax expense amounted to 311 million euros, down by 451 million euros on 2016 (762 million euros) mainly due to a lower IRES tax base, resulting from lower profit before tax, as well as the application of tax facilities.

Profit (loss) for the year

The year posted a profit of 1,087 million euros (profit of 1,897 million at December 31, 2016), which was negatively affected by 671 million euros in non-recurring net expenses. On a like-for-like basis i.e. without including the non-recurring items and, in 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond profit for 2017 would have come to approximately 1.8 billion euros, almost 0.5 billion euros higher than the figure for 2016 (1.3 billion euros).

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Financial Position and Cash Flows Performance

Financial position structure

(millions of euros)	12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Assets			
Non-current assets	56,231	55,219	1,012
Goodwill	*27,027*	*27,027*	
Other intangible assets	*4,249*	*3,886*	*363*
Tangible assets	*12,943*	*12,151*	*792*
Other non-current assets	*11,110*	*11,382*	*(272)*
Deferred tax assets	*902*	*773*	*129*
Current assets	5,956	6,482	(526)
Inventories, Trade and miscellaneous receivables and other current assets	*4,113*	*4,058*	*55*
Current income tax receivables			
Current financial assets	*1,843*	*2,424*	*(581)*
	62,187	61,701	486
Equity and liabilities			
Equity	20,069	18,973	1,096
Non-current liabilities	32,016	31,907	109
Current liabilities	10,102	10,821	(719)
	62,187	61,701	486

Non-current assets

- Goodwill was unchanged from December 31, 2016;
- Other intangible assets: rose by 363 million euros, representing the sum of the following:
  - capex (+1,627 million euros);
  - amortization charge for the year (-1,234 million euros);
  - impairment losses for the year (-30 million euros);
- Tangible assets: rose by 792 million euros, representing the sum of the following:
  - Balances acquired following the merger of TIM REAL ESTATE S.r.l. and Olivetti Multiservices S.p.A. in TIM S.p.A., with effect backdated to January 1, 2017 (+264 million euros);
  - capex (+2,468 million euros);
  - changes in finance leasing contracts (+54 million euros);
  - depreciation charge for the year (-1,969 million euros);
  - disposals, reclassifications and other changes (-25 million euros).

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Equity

Equity amounted to 20,069 million euros, up by 1,096 million euros compared to December 31, 2016 (18,973 million euros). The changes in equity during 2017 and 2016 are detailed in the following table:

(millions of euros)	12/31/2017	12/31/2016
At the beginning of the year	18,973	16,111
Profit (loss) for the year	1,087	1,897
Dividends approved	(166)	(166)
Merger of Ofi Consulting, Emsa Servizi (in liquidation), and Telecom Italia Deutschland Holding into TIM S.p.A.		23
Merger of TIM REAL ESTATE and Olivetti Multiservices S.p.A. into TIM S.p.A.	44	
Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016		1,300
Issue of equity instruments and other changes	(6)	3
Movements in the reserve for available-for-sale financial assets and derivative hedging instruments	130	(173)
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	7	(22)
At the end of the year	20,069	18,973

Cash flows

Change in net financial debt

(millions of euros)	2017	2016	Change
EBITDA	5,801	6,304	(503)

Capital expenditures on an accrual basis	(4,095)	(3,396)	(699)
Change in net operating working capital:	(10)	(270)	260
Change in inventories	*(45)*	*(2)*	*(43)*
Change in trade receivables and net amounts due from customers on construction contracts	*(16)*	*(191)*	*175*
Change in trade payables (*)	*83*	*173*	*(90)*
Other changes in operating receivables/payables	*(32)*	*(250)*	*218*
Change in employee benefits	439	(143)	582
Change in operating provisions and Other changes	103	(45)	148
Net operating free cash flow	2,238	2,450	(212)
% of Revenues	15.9	17.9	
Sale of investments and other disposals flow	47	346	(299)
Financial investments flow	(76)	(32)	(44)
Dividends flow	89	(107)	196
Change in finance leasing contracts	(54)	(196)	142
Share capital increases/reimbursements		1,300	(1,300)
Financial expenses, income taxes and other net non-operating requirements flow	(2,257)	(903)	(1,354)
Reduction (Increase) in net financial debt	(13)	2,858	(2,871)

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.

The decrease in net operating free cash flow in 2017, compared to 2016, was driven mainly by the drop in EBITDA (503 million euros) and higher capital expenditures on an accrual basis (699 million euros), which were only partially offset by the change in net working capital and in operating provisions and provisions for employee benefits expenses.

In addition to what has already been illustrated with reference to EBITDA, adjusted net financial debt at December 31, 2017 was particularly impacted by the following:

Flow of capital expenditures on an accrual basis

Capital expenditures amounted to 4,095 million euros (3,396 million euros in 2016), rising by 699 million euros. The increase included 571 million euros of higher capex in intangible assets and 128 million euros of higher capex in tangible assets.

Sale of investments and other disposals flow

The item posted a positive balance of 47 million euros for 2017, reflecting the sale of tangible assets (34 million euros) and the collection of a deferred portion of the price of a non-controlling interest sold in previous years (3 million euros).

A positive 346 million euros was posted in 2016, mainly driven by the capital gain realized on the disposal completed on March 8, 2016 of the entire remaining investment in Sofora - Telecom Argentina through the sale to the Fintech Group of 51% of the share capital of Sofora Telecomunicaciones (the parent company of Nortel, which controls Telecom Argentina).

Financial investments flow

The figure amounted to 76 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Flash Fiber (62 million euros) and Noverca (10 million euros).

In 2016, the item amounted to 32 million euros and mainly included investment account payments to cover losses or subscriptions of new share capital issued by the subsidiary TIM TANK (7 million euros), the company Noverca (10 million euros) and the company Flash Fiber (14 million euros).

Change in finance leasing contracts

The item, amounting to 54 million euros, represents the higher value of tangible assets under finance lease, which is partly a reflection of the associated higher financial payables, posted as a result of new rental agreements made for industrial vehicles and contractual renegotiations by TIM S.p.A. in 2017 as part of the real estate transformation project.

In 2016, the item amounted to 196 million euros. Further details are provided in the Note Tangible assets (owned and under finance leases) in the Separate Financial Statements at December 31, 2017 of TIM S.p.A..

Share capital increases/reimbursements, including incidental costs

No increases or reimbursements of share capital were made in 2017.

In 2016, the item amounted to 1,300 million euros and referred to the conversion into new TIM ordinary shares of bonds under the Loan 1,300,000,000 6.125 per cent. Guaranteed Subordinated Mandatory Convertible Bonds due 2016 , issued by Telecom Italia Finance S.A. and guaranteed by TIM S.p.A..

Finance expenses, income taxes and other net non-operating requirements flow

The item mainly includes the payment of income taxes (of around 1 billion euros), net finance expenses, and the change in non-operating receivables and payables.

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Net financial debt

This item amounted to 29,210 million euros, up by 13 million euros on 2016 (29,197 million euros).

To provide a better representation of the true performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a measure called Adjusted net financial debt has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting exchange and interest rates for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 Fair Value measurement, from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

The details are as follows:

(millions of euros)	12/31/2017	12/31/2016	Change
Non-current financial liabilities			
Bonds	14,902	14,102	800
Amounts due to banks, other financial payables and liabilities	11,709	12,889	(1,180)
Finance lease liabilities	1,856	1,967	(111)
	28,467	28,958	(491)
Current financial liabilities (1)			
Bonds	1,528	2,457	(929)
Amounts due to banks, other financial payables and liabilities	2,522	2,192	330
Finance lease liabilities	147	161	(14)
	4,197	4,810	(613)
Total Gross financial debt	32,664	33,768	(1,104)
Non-current financial assets			
Financial receivables and other non-current financial assets	(1,611)	(2,147)	536
	(1,611)	(2,147)	536
Current financial assets			
Securities other than investments	(746)	(842)	96

Financial receivables and other non-current financial assets	(326)	(352)	26
Cash and cash equivalents	(771)	(1,230)	459
	(1,843)	(2,424)	581
Total financial assets	(3,454)	(4,571)	1,117
Net financial debt carrying amount	29,210	29,197	13
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(1,414)	(1,621)	207
Adjusted net financial debt	27,796	27,576	220
Breakdown as follows:			
Total adjusted gross financial debt	30,298	31,245	(947)
Total adjusted financial assets	(2,502)	(3,669)	1,167
(1) of which current portion of medium/long-term debt:			
Bonds	*1,528*	*2,457*	*(929)*
Amounts due to banks, other financial payables and liabilities	*1,428*	*1,352*	*76*
Finance lease liabilities	*147*	*161*	*(14)*

The non-current portion of gross financial debt amounted to 28,467 million euros (28,958 million euros at the end of 2016) and represented 87% of total gross financial debt.

In line with the Group s objectives in terms of debt composition and in accordance Guidelines adopted for the Management and control of financial risk , TIM S.p.A., in securing both third-party and intercompany loans, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.

Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on financial instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

Sales of receivables to factoring companies

Sales of trade receivables to factoring companies finalized in 2017 resulted in a positive effect on net financial debt at December 31, 2017 of 1,897 million euros (1,047 million euros at December 31, 2016). The increase was driven by the introduction of new revolving securitization programs (handsets, modems, and billed mobile) and the identification of a greater volume of receivables factored.

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Gross financial debt

Bonds

Bonds at December 31, 2017 totaled 16,430 million euros (16,559 million euros at December 31, 2016). Their nominal repayment amount was 16,227 million euros, down by 18 million euros compared to December 31, 2016 (16,245 million euros).

Changes in bonds over 2017 are shown below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 2.500% maturing 7/19/2023	Euro	1,000	1/19/2017
Telecom Italia S.p.A. 1,250 million euros 2.375% maturing 10/12/2027	Euro	1,250	10/12/2017

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 545 million euros 7.000% (1)	Euro	545	1/20/2017
Telecom Italia S.p.A. 628 million euros 4.500% (2)	Euro	628	9/20/2017
Telecom Italia S.p.A. 750 million British pounds 7.375%	GBP	750	12/15/2017

(1) Net of buybacks by the Company of 455 million euros during 2015.
(2) Net of buybacks by the Company of 372 million euros during 2015.

With reference to Telecom Italia S.p.A. 2002 2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2017 was 204 million euros, up by 3 million euros compared to December 31, 2016 (201 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2017:

(billions of euros)		12/31/2017 Agreed	12/31/2017 Drawn down	12/31/2016 Agreed	12/31/2016 Drawn down
Revolving Credit Facility	expiring May 2019	4.0		4.0	

Revolving Credit Facility	expiring March 2020	3.0	3.0
Total		7.0	7.0

At December 31, 2017, TIM had two syndicated Revolving Credit Facilities of 4 billion euros and 3 billion euros expiring May 24, 2019 and March 25, 2020 respectively, both not yet drawn down. On January 16, 2018, the two Revolving Credit Facilities were closed and replaced by a new Revolving Credit Facility for a total of 5 billion euros, expiring in 5 years.

TIM also has:

- a bilateral Term Loan from UBI Banca (former Banca Regionale Europea) expiring July 2019 for 200 million euros, drawn down for the full amount;
- two bilateral Term Loans from Mediobanca, respectively for 134 million euros expiring in November 2019 and 75 million euros expiring in July 2020, drawn down for the full amount;
- a bilateral Term Loan from ICBC expiring July 2020 for 120 million euros, drawn down for the full amount;
- a bilateral Term Loan from Intesa Sanpaolo expiring August 2021 for 200 million euros, drawn down for the full amount;
- an overdraft facility with Banca Popolare dell Emilia Romagna for 250 million euros, drawn down for the full amount and repaid in full at expiry on February 15, 2018;
- an overdraft facility with Intesa Sanpaolo expiring December 2018 for 200 million euros, drawn down for the full amount;
- a bilateral Term Loan from Intesa Sanpaolo expiring December 2018 for 2 billion euros, not yet drawn down.

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On December 21, 2017, TIM S.p.A. notified Mediobanca of its decision to exercise the early repayment option on the 150 million euro bilateral term loan expiring July 2020, with the full repayment of the residual principal of 75 million euros on January 3, 2018.

On January 16, 2018, TIM S.p.A. exercised the early repayment option on the 2 billion euro bilateral Term Loan with Intesa Sanpaolo expiring December 2018, with repayment made on January 17, 2018.

Maturities of financial liabilities

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 7.27 years.

Details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, are provided in the Note Financial Liabilities (non-current and current) of the Separate Financial Statements of TIM S.p.A. at December 31, 2017.

Financial assets

Financial assets totaled 3,454 million euros (4,571 million euros at December 31, 2016), of which 818 million euros relating to financial receivables from Group companies.

Of that total, 1,843 million euros (2,424 million euros at December 31, 2016) was classified as current financial assets.

The available liquidity margin of TIM S.p.A. amounted to 6,517 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments for a total of 1,517 million euros (2,072 million euros at December 31, 2016);

- the new Revolving Credit Facility opened in January 2018 for 5,000 million euros.

This margin is amply sufficient to cover the financial liabilities due.

In particular:

- Cash and cash equivalents amounted to 771 million euros (1,230 million euros at December 31, 2016). The different technical forms of investing available cash can be analyzed as follows:

  - Maturities: investments have a maximum maturity of three months;

  - Counterparty risk: investments are made with leading banking and financial institutions with high-credit-quality;

Country risk: deposits have been made mainly in major European financial markets.

Current securities other than investments amounted to 746 million euros (842 million euros at December 31, 2016). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They consist of:

Italian Treasury bonds (256 million euros). These securities, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities, have been purchased in accordance with the Guidelines for the Management and control of financial risk adopted by the TIM Group since August 2012, in replacement of the previous policies;

securities held in portfolio by TIM S.p.A. for a total nominal amount of USD 564 million, resulting from the buyback public offer on bonds of TIM Capital S.A. completed on July 20, 2015.

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FINANCIAL STATEMENTS TIM S.p.A.

Separate Income Statements

(millions of euros)	2017	2016	Change amount	Change %
Revenues	14,099	13,670	429	3.1
Other income	459	241	218	90.5
Total operating revenues and other income	14,558	13,911	647	4.7
Acquisition of goods and services	(5,567)	(5,051)	(516)	(10.2)
Employee benefits expenses	(3,034)	(2,530)	(504)	(19.9)
Other operating expenses	(658)	(517)	(141)	(27.3)
Change in inventories	45	8	37	
Internally generated assets	457	483	(26)	(5.4)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,801	6,304	(503)	(8.0)
Depreciation and amortization	(3,203)	(3,161)	(42)	(1.3)
Gains/(losses) on disposals of non-current assets	(1)	(6)	5	83.3
Impairment reversals (losses) on non-current assets	(30)	(3)	(27)	
Operating profit (loss) (EBIT)	2,567	3,134	(567)	(18.1)
Income (expenses) from investments	225	12	213	
Finance income	1,571	1,957	(386)	(19.7)
Finance expenses	(2,965)	(2,784)	(181)	(6.5)
Profit (loss) before tax from continuing operations	1,398	2,319	(921)	(39.7)
Income tax expense	(311)	(762)	451	59.2

Profit (loss) from continuing operations	1,087	1,557	(470)	(30.2)
Profit (loss) from Discontinued operations/Non-current assets held for sale		340	(340)	
Profit (loss) for the year	1,087	1,897	(810)	(42.7)

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Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), which came into effect on January 1, 2009, the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		2017	2016
Profit (loss) for the year	(a)	1,087	1,897
Other components of the Statements of Comprehensive Income:			
Other components that will not be reclassified subsequently to Separate Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		9	(29)
Income tax effect		(2)	7
		7	**(22)**
Total other components that will not be reclassified subsequently to Separate Income Statements	(b)	7	(22)
Other components that will be reclassified subsequently to Separate Income Statements			
Available-for-Sale financial assets			
Profit (loss) from fair value adjustments		(33)	4
Loss (profit) transferred to the Separate Income Statements			
Income tax effect		9	(2)
	(c)	(24)	2
Hedging instruments:			
Profit (loss) from fair value adjustments		(190)	(498)
Loss (profit) transferred to the Separate Income Statements		393	279
Income tax effect		(49)	44
	(d)	154	(175)
Total other components that will be reclassified subsequently to Separate Income Statements	(e = c+d)	130	(173)

Total other components of the Statements of Comprehensive Income	(f= b+e)	137	(195)
Total comprehensive income (loss) for the year	(a+f)	1,224	1,702

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Statements of Financial Position

(millions of euros)		12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		27,027	27,027	
Intangible assets with a finite useful life		4,249	3,886	363
		31,276	30,913	363
Tangible assets				
Property, plant and equipment owned		10,871	10,046	825
Assets held under finance leases		2,072	2,105	(33)
		12,943	12,151	792
Other non-current assets				
Investments		7,747	7,732	15
Non-current financial assets		1,611	2,147	(536)
Miscellaneous receivables and other non-current assets		1,752	1,503	249
Deferred tax assets		902	773	129
		12,012	12,155	(143)
Total Non-current assets	(a)	56,231	55,219	1,012
Current assets				
Inventories		178	133	45
Trade and miscellaneous receivables and other current assets		3,935	3,925	10
Current income tax receivables				
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,072*	*1,194*	*(122)*

Cash and cash equivalents		*771*	*1,230*	*(459)*
		1,843	2,424	(581)
Total Current assets	(b)	5,956	6,482	(526)
Total Assets	(a+b)	62,187	61,701	486

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(millions of euros)		12/31/2017 (a)	12/31/2016 (b)	Change (a-b)
Equity and liabilities				
Equity				
Share capital issued		11,677	11,677	
less: Treasury shares		(21)	(21)	
Share capital		11,656	11,656	
Additional paid-in capital		2,094	2,094	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		6,319	5,223	1,096
Total Equity	(c)	20,069	18,973	1,096
Non-current liabilities				
Non-current financial liabilities		28,467	28,958	(491)
Employee benefits		1,661	1,274	387
Deferred tax liabilities		2	2	
Provisions		595	596	(1)
Miscellaneous payables and other non-current liabilities		1,291	1,077	214
Total Non-current liabilities	(d)	32,016	31,907	109
Current liabilities				
Current financial liabilities		4,197	4,810	(613)
Trade and miscellaneous payables and other current liabilities		5,850	5,465	385
Current income tax payables		55	546	(491)
Total Current Liabilities	(e)	10,102	10,821	(719)
Total Liabilities	(f=d+e)	42,118	42,728	(610)
Total Equity and Liabilities	(c+f)	62,187	61,701	486

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Statements of Cash Flows

(millions of euros)		2017	2016
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,087	1,557
Adjustments for:			
Depreciation and amortization		3,203	3,161
Impairment losses (reversals) on non-current assets (including investments)		73	47
Net change in deferred tax assets and liabilities		(168)	58
Losses (gains) realized on disposals of non-current assets (including investments)		1	6
Change in employee benefits		439	(143)
Change in inventories		(45)	(2)
Change in trade receivables and net amounts due from customers on construction contracts		(16)	(191)
Change in trade payables		(538)	170
Net change in current income tax receivables/payables		(485)	603
Net change in miscellaneous receivables/payables and other assets/liabilities		99	(254)
Cash flows from (used in) operating activities	(a)	3,650	5,012
Cash flows from investing activities:			
Purchase of intangible assets		*(1,627)*	*(1,056)*
Purchase of tangible assets		*(2,522)*	*(2,536)*
Total purchase of intangible and tangible assets on an accrual basis		(4,149)	(3,592)
Change in amounts due to fixed asset suppliers		*676*	*221*
Total purchase of intangible and tangible assets on a cash basis		(3,473)	(3,371)
Contributions for plants received		82	
Cash arising from corporate actions		(243)	100

Acquisitions/disposals of other investments		(76)	(32)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		(114)	111
Proceeds received from the sale of investments in subsidiaries			340
Proceeds from sale/repayment of intangible, tangible and other non-current assets		47	6
Cash flows from (used in) investing activities	(b)	(3,777)	(2,846)
Cash flows from financing activities:			
Change in current financial liabilities and other		(317)	(934)
Proceeds from non-current financial liabilities (including current portion)		3,243	3,183
Repayments of non-current financial liabilities (including current portion)		(3,595)	(4,687)
Change in hedging derivative and other derivative receivables/liabilities		199	
Share capital proceeds/reimbursements			1,300
Dividends paid		(166)	(166)
Cash flows from (used in) financing activities	(c)	(636)	(1,304)
Aggregate cash flows	(d=a+b+c)	(763)	862
Net cash and cash equivalents at beginning of the year	(e)	1,062	200
Net cash and cash equivalents at end of the year	(f=d+e)	299	1,062

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Additional Cash Flow Information

(millions of euros)	2017	2016
Income taxes (paid) received	(949)	(70)
Interest expense paid	(2,838)	(2,099)
Interest income received	1,658	826
Dividends received	255	59

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2017	2016
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	1,230	916
Bank overdrafts repayable on demand	(168)	(716)
	1,062	200
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents	771	1,230
Bank overdrafts repayable on demand	(472)	(168)
	299	1,062

The additional disclosures required by IAS 7 commencing as of the current year are provided in the Note Net Financial Debt in the Separate Financial Statements of TIM S.p.A. as at December 31, 2017.

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RECONCILIATION OF CONSOLIDATED EQUITY

(millions of euros)	Profit (loss) for the year 2017	2016	Equity at 12/31 2017	2016
Equity and Profit (Loss) for the year of TIM S.p.A.	1,087	1,897	20,070	18,973
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interests	378	554	14,998	16,203
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to Owners of the Parent:				
elimination of carrying amount of consolidated investments			(28,287)	(29,027)
impairment losses of consolidated companies included in the results of parent companies	32	(51)	12,675	12,731
elimination of goodwill recognized in Parent financial statements			(27,027)	(27,027)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill			28,732	28,858
- allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(3)	(3)	29	32
measurement of hedging derivatives at Group level	27	(23)	553	656
effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance			(91)	(106)
intra-group dividends	(370)	(154)		
change in share of losses (profits) from sale of investments		(412)		
other adjustments	(30)		(95)	(86)
Equity and Profit (Loss) for the year attributable to Owners of the Parent	1,121	1,808	21,557	21,207
Equity and Profit (Loss) for the year attributable to Non-controlling interests	166	158	2,226	2,346
Equity and Profit (Loss) for the year in the Consolidated Financial Statements	1,287	1,966	23,783	23,553

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CORPORATE BOARDS AT DECEMBER 31, 2017

BOARD OF DIRECTORS

The ordinary shareholders meeting of the Company, held on May 4, 2017, appointed the new Board of Directors, setting its number of members at 15 and its term of office at three years (up to the approval of the financial statements at December 31, 2019). The Board of Directors, at its meeting held on May 5, 2017, appointed Giuseppe Recchi as Executive Chairman, Arnaud Roy de Puyfontaine as Deputy Chairman and Flavio Cattaneo as Chief Executive Officer of the Company.

On June 1, 2017 the Board of Directors approved changes in the company officers, with the appointment of Arnaud Roy de Puyfontaine as Executive Chairman and Giuseppe Recchi as Deputy Chairman.

On July 24, the Board of Directors accepted the resignation (with effect from July 28) submitted by the Chief Executive Officer Flavio Cattaneo, from that office and from the Board. In the meeting held on 27 July, the Board of Directors temporarily assigned the responsibilities of Chief Executive Officer to the Executive Chairman Arnaud Roy de Puyfontaine, except for those related to the Security Function and the company Telecom Italia Sparkle, which have been assigned on an interim basis to the Deputy Chairman, Giuseppe Recchi.

Subsequently, on September 28, 2017, the Board of Directors co-opted Amos Genish, appointing him as Chief Executive Officer assigning him executive powers and as General Manager. The Board of Directors also renewed the appointment of Arnaud Roy de Puyfontaine as Executive Chairman and of Giuseppe Recchi as Deputy Executive Chairman, introducing a new distribution of powers.

The Board of Directors of the Company, at December 31, 2017, was therefore composed as follows:

Executive Chairman	Arnaud Roy de Puyfontaine
Deputy Executive Chairman	Giuseppe Recchi
Chief Executive Officer and General Manager	Amos Genish
Directors	Camilla Antonini (independent)
	Franco Bernabè (independent)
	Ferruccio Borsani (independent)
	Lucia Calvosa (independent)

	Francesca Cornelli (independent)
	Frédéric Crépin
	Dario Frigerio (independent)
	Félicité Herzog (independent)
	Anna Jones (independent)
	Marella Moretti (independent)
	Hervé Philippe
	Danilo Vivarelli (independent)
Secretary to the Board	Agostino Nuzzolo

All the board members are domiciled for the positions they occupy at the registered offices of TIM S.p.A. at Via G. Negri 1, Milan; the secondary head office of the Company is located in Corso d Italia 41, Rome.

The following board committees were in place at December 31, 2017:

Control and Risk Committee: composed of the Directors: Lucia Calvosa (appointed Chair on June 22, 2017), Camilla Antonini (appointed on July 27, 2017 to replace the resigning director Frédéric Crépin), Francesca Cornelli, Félicité Herzog and Marella Moretti;

Nomination and Remuneration Committee: composed of the Directors: Anna Jones (appointed Chair on June 15, 2017), Ferruccio Borsani, Frédéric Crépin, Hervé Philippe and Danilo Vivarelli;

Strategy Committee: composed of the Chairman of the Board of Directors, Arnaud Roy de Puyfontaine, the Chief Executive Officer, Amos Genish, the Deputy Executive Chairman Giuseppe Recchi (appointed Chair of the committee on September 28, 2017) and the directors Franco Bernabè, Frédéric Crépin (appointed on July 27, 2017) and Dario Frigerio.

BOARD OF STATUTORY AUDITORS

The ordinary shareholders meeting of May 20, 2015 appointed the Company s Board of Statutory Auditors with a term up to the approval of the 2017 financial statements.

On September 11, 2017, following her resignation, Paola Maiorana was replaced in the Board of Statutory Auditors by Gabriella Chersicla, formerly an Alternate Statutory Auditor of the Company.

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The Board of Statutory Auditors of the Company is now composed as follows:

Chairman	Roberto Capone
Acting Auditors	Vincenzo Cariello
	Gabriella Chersicla
	Gianluca Ponzellini
	Ugo Rock
Alternate Auditors	Francesco Di Carlo
	Piera Vitali
	Riccardo Schioppo

INDEPENDENT AUDITORS

The shareholders meeting held on April 29, 2010 appointed the audit firm PwC S.p.A. to audit the financial statements of TIM S.p.A. for the nine-year period 2010-2018.

MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE FINANCIAL REPORTS

At the meeting of May 5, 2017, the Board of Directors confirmed Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) as the manager responsible for preparing the financial reports of TIM S.p.A..

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MACRO-ORGANIZATION CHART AT DECEMBER 31, 2017

Commencing as of January 18, 2018, Procurement & Real Estate has been renamed the Procurement Unit & Real Estate.

Commencing as of January 18, 2018 the Chairman Office Manager and CEO Staff Manager have been replaced.

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On March 6, 2018, the Macro-Organization Chart changed as follows:

(1) The Executive Chairman holds functional responsibility for Corporate Affairs.
(2) The Chief Executive Officer directly coordinates Corporate Communications and Brand Management activities.
(*) P. Peluso also holds the positions Chief Transformation Officer.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(millions of euros)		*note*	12/31/2017	*of which related parties*	12/31/2016	*of which related parties*
Non-current assets						
Intangible assets						
Goodwill		4)	29,462		29,612	
Intangible assets with a finite useful life		5)	7,192		6,951	
			36,654		36,563	
Tangible assets		6)				
Property, plant and equipment owned			14,216		13,947	
Assets held under finance leases			2,331		2,413	
			16,547		16,360	
Other non-current assets						
Investments in associates and joint ventures accounted for using the equity method		7)	17		18	
Other investments		7)	51		46	
Non-current financial assets		8)	1,768		2,698	*532*
Miscellaneous receivables and other non-current assets		9)	2,422		2,222	
Deferred tax assets		10)	993		877	
			5,251		5,861	
Total Non-current assets	(a)		58,452		58,784	
Current assets						
Inventories		11)	290		270	
Trade and miscellaneous receivables and other current assets		12)	4,959	*36*	5,426	*136*

Current income tax receivables	10)	77		94	
Current financial assets	8)				
Securities other than investments, financial receivables and other current financial assets		1,430	*53*	*1,908*	*132*
Cash and cash equivalents		3,575		*3,964*	*621*
		5,005	*53*	5,872	753
Current assets sub-total		10,331		11,662	
Discontinued operations/Non-current assets held for sale					
Total Current assets	(b)	10,331		11,662	
Total Assets	(a+b)	68,783		70,446	

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Equity and Liabilities

(millions of euros)		*note*	12/31/2017	*of which related parties*	12/31/2016	*of which related parties*
Equity		13)				
Share capital issued			11,677		11,677	
less: Treasury shares			(90)		(90)	
Share capital			11,587		11,587	
Additional paid-in capital			2,094		2,094	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year			7,876		7,526	
Equity attributable to Owners of the Parent			21,557		21,207	
Non-controlling interests			2,226		2,346	
Total Equity	(c)		23,783		23,553	
Non-current liabilities						
Non-current financial liabilities		14)	28,108	*100*	30,469	*912*
Employee benefits		19)	1,736		1,355	
Deferred tax liabilities		10)	265		293	
Provisions		20)	825		830	
Miscellaneous payables and other non-current liabilities		21)	1,678		1,607	*2*
Total Non-current liabilities	(d)		32,612		34,554	
Current liabilities						
Current financial liabilities		14)	4,756	*163*	4,056	*133*
Trade and miscellaneous payables and other current liabilities		22)	7,520	*60*	7,646	*263*
Current income tax payables		10)	112		637	

Current liabilities sub-total		12,388	12,339
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Current Liabilities	(e)	12,388	12,339
Total Liabilities	(f=d+e)	45,000	46,893
Total Equity and Liabilities	(c+f)	68,783	70,446

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SEPARATE CONSOLIDATED INCOME STATEMENTS

(millions of euros)	*note*	Year 2017	*of which: with related parties*	Year 2016	*of which: with related parties*
Revenues	24)	19,828	*118*	19,025	*342*
Other income	25)	523	*8*	311	*1*
Total operating revenues and other income		20,351		19,336	
Acquisition of goods and services	26)	(8,388)	*(192)*	(7,793)	*(238)*
Employee benefits expenses	27)	(3,626)	*(112)*	(3,106)	*(121)*
Other operating expenses	28)	(1,208)		(1,083)	*(1)*
Change in inventories		35		9	
Internally generated assets	29)	626		639	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		7,790		8,002	
of which: impact of non-recurring items	40)	*(883)*		*(197)*	
Depreciation and amortization	30)	(4,473)		(4,291)	
Gains/(losses) on disposals of non-current assets	31)	11		14	
Impairment reversals (losses) on non-current assets	32)	(37)		(3)	
Operating profit (loss) (EBIT)		3,291		3,722	
of which: impact of non-recurring items	40)	*(913)*		*(185)*	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	7)	(1)		(23)	
Other income (expenses) from investments	33)	(18)		7	
Finance income	34)	1,808	*45*	2,543	*108*
Finance expenses	34)	(3,303)	*(49)*	(3,450)	*(114)*

Profit (loss) before tax from continuing operations		1,777	2,799	
of which: impact of non-recurring items	40)	*(939)*	*(210)*	
Income tax expense	10)	(490)	(880)	
Profit (loss) from continuing operations		1,287	1,919	
Profit (loss) from Discontinued operations/Non-current assets held for sale			47	*9*
Profit (loss) for the year	35)	1,287	1,966	
of which: impact of non-recurring items	40)	*(714)*	*(159)*	
Attributable to:				
Owners of the Parent		1,121	1,808	
Non-controlling interests		166	158	

(euros)		Year 2017	Year 2016
Earnings per share:	36)		
Basic and Diluted Earnings Per Share (EPS)			
Ordinary Share		0.05	0.08
Savings Share		0.06	0.09
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		0.05	0.08
Savings Share		0.06	0.09

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Note 13

(millions of euros)		Year 2017	Year 2016
Profit (loss) for the year	(a)	1,287	1,966
Other components of the Consolidated Statements of Comprehensive Income			
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		10	(33)
Income tax effect		(1)	7
	(b)	9	(26)
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(c)		
Total other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	(d=b+c)	9	(26)
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		63	46
Loss (profit) transferred to the Separate Consolidated Income Statements		(62)	(37)
Income tax effect		2	(2)
	(e)	3	7
Hedging instruments:			
Profit (loss) from fair value adjustments		(854)	(312)
Loss (profit) transferred to the Separate Consolidated Income Statements		826	(80)

Income tax effect		(3)	90
	(f)	(31)	(302)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(830)	852
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		19	304
Income tax effect			
	(g)	(811)	1,156
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Consolidated Income Statements			
Income tax effect			
	(h)		
Total other components that subsequently will be reclassified to the Separate Consolidated Income Statements	(i=e+f+g+h)	(839)	861
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	(830)	835
Total comprehensive income (loss) for the year	(a+k)	457	2,801
Attributable to:			
Owners of the Parent		527	2,534
Non-controlling interests		(70)	267

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes from January 1, 2016 to December 31, 2016

	Equity attributable to Owners of the Parent										
(millions of euros)	Share capital	Additional paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total	Non-controlling interests	Total equity
Balance at December 31, 2015	10,650	1,731	32	(249)	(1,413)	(87)		6,890	17,554	3,695	21,249
Changes in equity during the year:											
Dividends approved								(166)	(166)	(38)	(204)
Total comprehensive income (loss) for the year			7	(302)	1,047	(26)		1,808	2,534	267	2,801
Disposal of the Sofora Telecom Argentina group										(1,582)	(1,582)
Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016	937	363							1,300		1,300
								1	1		1

Issue of equity instruments										
Other changes							(16)	(16)	4	(12)
Balance at December 31, 2016	11,587	2,094	39	(551)	(366)	(113)	8,517	21,207	2,346	23,553

Changes from January 1, 2017 to December 31, 2017 Note 13

(millions of euros)	Equity attributable to Owners of the Parent											
	Share capital	Additional paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total	Non-controlling interests	Total equity
Balance at December 31, 2016	11,587	2,094	39	(551)	(366)	(113)		8,517	21,207	2,346	23,553
Changes in equity during the year:											
Dividends approved								(166)	(166)	(64)	(230)
Total comprehensive income (loss) for the year			3	(31)	(575)	9		1,121	527	(70)	457
Issue of equity instruments								(6)	(6)		(6)
Other changes					(14)			9	(5)	14	9
Balance at December 31, 2017	11,587	2,094	42	(582)	(955)	(104)		9,475	21,557	2,226	23,783

Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)	note	Year 2017	Year 2016
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,287	1,919
Adjustments for:			
Depreciation and amortization		4,473	4,291
Impairment losses (reversals) on non-current assets (including investments)		50	6
Net change in deferred tax assets and liabilities		(147)	38
Losses (gains) realized on disposals of non-current assets (including investments)		(11)	(15)
Share of profits (losses) of associates and joint ventures accounted for using the equity method		1	23
Change in employee benefits		437	(131)
Change in inventories		(30)	(10)
Change in trade receivables and net amounts due from customers on construction contracts		379	(310)
Change in trade payables		(605)	229
Net change in current income tax receivables/payables		(515)	581
Net change in miscellaneous receivables/payables and other assets/liabilities		80	(915)
Cash flows from (used in) operating activities	(a)	5,399	5,706
Cash flows from investing activities:			
Purchase of intangible assets	5)	*(2,292)*	*(1,641)*
Purchase of tangible assets	6)	*(3,477)*	*(3,467)*
Total purchase of intangible and tangible assets on an accrual basis [(*)]		(5,769)	(5,108)
Change in amounts due for purchases of intangible and tangible assets		*455*	*450*

Total purchase of intangible and tangible assets on a cash basis		(5,314)	(4,658)
Capital grants received		82	
Acquisition of control in subsidiaries or other businesses, net of cash acquired			(10)
Acquisitions/disposals of other investments		(4)	(5)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		466	175
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			492
Proceeds from sale/repayment of intangible, tangible and other non-current assets		30	42
Cash flows from (used in) investing activities	(b)	(4,740)	(3,964)
Cash flows from financing activities:			
Change in current financial liabilities and other		(1,188)	(437)
Proceeds from non-current financial liabilities (including current portion)		2,630	3,561
Repayments of non-current financial liabilities (including current portion)		(3,426)	(4,164)
Changes in hedging and non-hedging derivatives		997	
Share capital proceeds/reimbursements (including subsidiaries)		16	4
Dividends paid (*)		(235)	(227)
Changes in ownership interests in consolidated subsidiaries		(4)	
Cash flows from (used in) financing activities	(c)	(1,210)	(1,263)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		(45)
Aggregate cash flows	(e=a+b+c+d)	(551)	434
Net cash and cash equivalents at beginning of the year:	(f)	3,952	3,216
Net foreign exchange differences on net cash and cash equivalents	(g)	(155)	302
Net cash and cash equivalents at end of the year:	(h=e+f+g)	3,246	3,952
(*) of which related parties:			
Total purchase of intangible and tangible assets on an accrual basis		135	159

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Additional Cash Flow Information

(millions of euros)	Year 2017	Year 2016
Income taxes (paid) received	(1,100)	(218)
Interest expense paid	(2,899)	(2,306)
Interest income received	1,636	934
Dividends received	1	8

Analysis of Net Cash and Cash Equivalents

(millions of euros)	Year 2017	Year 2016
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents - from continuing operations	3,964	3,559
Bank overdrafts repayable on demand from continuing operations	(12)	(441)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale		98
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	3,952	3,216
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents - from continuing operations	3,575	3,964
Bank overdrafts repayable on demand from continuing operations	(329)	(12)
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		
	3,246	3,952

The additional disclosures required by IAS 7 as of this reporting period are provided in the Note Net Financial Debt to these Consolidated Financial Statements.

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NOTE 1

FORM, CONTENT AND OTHER GENERAL INFORMATION

FORM AND CONTENT

Telecom Italia S.p.A. (the Parent), also known in short as TIM S.p.A. , and its subsidiaries form the TIM Group or the Group .

TIM is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, TIM, are located in Milan, Italy at Via Gaetano Negri 1.

The duration of TIM S.p.A., as stated in the company s bylaws, extends until December 31, 2100.

On July 27, 2017, the Board of Directors of TIM S.p.A. acknowledged the start of the direction and coordination by Vivendi S.A..

On September 13, 2017, Consob reported that it considered that Vivendi exercises *de facto* control over TIM pursuant to Article 2359 of the Italian Civil Code and pursuant to Article 93 of the Consolidated Law on Finance, as well as under related party rules .

The TIM Group Consolidated Financial Statements as at December 31, 2017 have therefore been prepared in accordance with the relevant provisions, indicating Vivendi S.A. as the Controlling Entity and TIM S.p.A. as the company subject to direction and coordination by Vivendi S.A..

The TIM Group operates mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The TIM Group consolidated financial statements at December 31, 2017 have been prepared on a going concern basis (for further details see the Note Accounting policies) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing Article 9 of Italian Legislative Decree 38 of February 28, 2005).

In 2017, the Group applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted in the consolidated financial statements as of December 31, 2017 and described below.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the

changes in fair value of the hedged risks (fair value hedge).

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

The TIM Group consolidated financial statements as at December 31, 2017 are expressed in euro (rounded to the nearest million unless otherwise indicated).

Publication of the TIM Group consolidated financial statements for the year ended December 31, 2017 was approved by resolution of the Board of Directors meeting held on March 6, 2018.

FINANCIAL STATEMENT FORMATS

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

- the consolidated statements of financial position have been prepared by classifying assets and liabilities according to the current and non-current criterion;
- the separate consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the TIM Group s industrial sector.

In addition to EBIT or Operating profit (loss), the separate consolidated income statements include the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

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In particular, besides EBIT, EBITDA 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). EBIT and EBITDA 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 (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

the Consolidated statements of comprehensive income include the profit or loss for the year as shown in the separate consolidated income statements and all other non-owner changes in equity;

the Consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate consolidated income statements, income and expenses relating to transactions which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impacts on the main intermediate levels have been shown separately, when they are significant. Specifically, non-recurring income/(expenses) include, for instance: income/expenses arising from the sale of properties, plant and equipment, business segments and investments; expenses stemming from company reorganization and streamlining processes and projects, also in connection with corporate transactions (mergers, spin-offs, etc.); expenses resulting from litigation and regulatory fines and related liabilities; other provisions and related reversals; costs for the settlement of disputes; and impairment losses on goodwill and/or other intangible and tangible assets).

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the consolidated financial statements.

SEGMENT REPORTING

An operating segment is a component of an entity:

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

In particular, the operating segments of the TIM Group are organized according to geographic location (Domestic and Brazil) for the telecommunications business.

The Sofora - Telecom Argentina group, which was sold on March 8, 2016, has been recognized under Discontinued operations.

The term operating segment is considered synonymous with Business Unit .

The operating segments of the TIM Group are as follows:

- Domestic: includes operations in Italy for voice and data services on fixed and mobile networks for end customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), which, at international level (Europe, the Mediterranean and South America), develops fiber optic networks for wholesale customers, the operations of Olivetti (products and services for Information Technology), as well as INWIT S.p.A. (a company operating in the electronic communications infrastructure sector, and in particular the infrastructure for hosting radio transmission equipment for mobile telephone networks, both for TIM and other operators) and the units supporting the Domestic sector.

See the section Financial and Operating Highlights of the Business Units of the TIM Group Domestic Business Unit of the Report on Operations for more details;

- Brazil: includes mobile (TIM Celular) and fixed (TIM Celular and Tim S.A., formerly Intelig) telecommunications operations in Brazil;
- Other Operations: include finance companies and other minor companies not strictly related to the core business of the TIM Group.

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NOTE 2

ACCOUNTING POLICIES

GOING CONCERN

The consolidated financial statements for 2017 have been prepared on a going concern basis as there is the reasonable expectation that TIM will continue its operational activities in the foreseeable future (and in any event over a period of at least twelve months).

In particular, the following factors have been taken into consideration:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the TIM Group are exposed:
  - changes in the general macroeconomic situation in the Italian, European and Brazilian markets, as well as the volatility of financial markets in the Eurozone also as a result of the Brexit referendum in the United Kingdom;
  - variations in business conditions, also related to competition;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group s credit rating by rating agencies);
- the optimal mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, as described in the paragraph Share capital information under the Note Equity ;
- the policy for financial risk management (market risk, credit risk and liquidity risk), as described in the Note Financial risk management .

Based on these factors, the Management believes that, at the present time, there are no elements of uncertainty regarding the Group s ability to continue as a going concern.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of all subsidiaries from the date control over such subsidiaries commences until the date that control ceases.

The date of all the subsidiaries financial statements coincides with that of the Parent TIM.

Control exists when the Parent TIM S.p.A. has all the following:

- power over the investee, which includes the ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee s returns;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor s returns.

TIM assesses whether it controls an investee if facts and circumstances indicate that there are changes in one or more of the three control elements.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate items, respectively, in the consolidated statements of financial position, in the separate consolidated income statements and in the consolidated statements of comprehensive income.

Under IFRS 10 (*Consolidated financial statements*), the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated in consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statements.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the statement of financial position date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests. The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statements of

cash flows are translated into Euro at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

Under IFRS 10, changes in a parent s ownership interest in a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

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Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognizes:
  - the assets (including any goodwill) and the liabilities;
  - the carrying amount of any non-controlling interests;
- recognizes:
  - the fair value of the consideration received, if any, from the transaction;
  - any investment retained in the former subsidiary at its fair value at the date when control is lost;
  - any gain or loss, resulting from the transaction, in the separate consolidated income statements;
  - the reclassification to the separate consolidated income statements, of the amounts previously recognized in other comprehensive income in relation to the subsidiary.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (Investments in Associates and Joint Ventures) and IFRS 11 (Joint Arrangements).

Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises significant influence, but no control or joint control over the financial and operating policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates and joint ventures are included in the consolidated financial statements from the date that significant influence or joint control commences until the date such significant influence or joint control ceases.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor s share of the profit or loss of the investee after the date of acquisition. The investor s share of the investee s profit or loss is recognized in the investor s income statements. Dividends received from an investee reduce the carrying amount of the investment.

Adjustments to the carrying amount may also be necessary for changes in the investee s other comprehensive income (i.e. those arising from foreign exchange translation differences). The investor s share of those changes is recognized in the investor s other comprehensive income.

If an investor s share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the investor discontinues recognizing its share of further losses. After the investor s interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Gains and losses resulting from upstream and downstream transactions between an investor (including its consolidated subsidiaries) and its associate or joint venture are recognized in the investor s financial statements only to the extent of unrelated investors interests in the associate or joint venture.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

INTANGIBLE ASSETS

Goodwill

Under IFRS 3 (*Business Combinations*), goodwill is recognized as of the date of acquisition of control and measured as the excess of (a) over (b) below:

a) the aggregate of:

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

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

IFRS 3 requires, inter alia, the following:

incidental costs incurred in connection with a business combination are charged to the separate consolidated income statements;

in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statements.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of intangible and tangible assets - Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

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Development costs

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

Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way which the asset s future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated intangible assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized prospectively in the separate consolidated income statements. For a small portion of mobile offerings, the Group capitalizes directly attributable subscriber acquisition costs, currently mainly consisting of commissions for the sales network, when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of a penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 36 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

TANGIBLE ASSETS

Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized at its present value as a provision in the statement of financial position. These capitalized costs are depreciated and charged to the separate consolidated income statements over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess if any, should be recorded immediately in the separate consolidated income statements, conventionally under the line item Depreciation .

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized prospectively in the separate consolidated income statements.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statements) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statements on a straight-line basis over the lease term.

When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately.

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CAPITALIZED BORROWING COSTS

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statements and deducted directly from the finance expense line item to which they relate.

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IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated at the date of acquisition to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statements. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units denominated in foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to euro at the spot rate on the date of the impairment test (in the case of the TIM Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with a finite useful life

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate consolidated income statements.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statements.

FINANCIAL INSTRUMENTS

Other investments

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

Upon acquisition, investments are classified in the following categories:

available-for-sale financial assets , as non-current or current assets;

financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve under the other components of the statements of comprehensive income (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statements.

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Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statements, as required by IAS 39 (*Financial instruments: recognition and measurement*).

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

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

Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost. Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any write-down for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;

- held for trading and measured at fair value through profit or loss;

- available-for-sale and measured at fair value with a contra-entry to an equity reserve (*Reserve for available-for-sale financial assets*) which is reversed to the separate consolidated income statements when the financial asset is disposed of or impaired.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

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Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

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

Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statements for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy described above.

Financial liabilities

Financial liabilities comprise financial payables, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statements and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the TIM Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- at the inception of the hedge, the hedging relationship is formally designated and documented;
- the hedge is expected to be highly effective;
- its effectiveness can be reliably measured;
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Fair value hedge   Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statements. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statements.
- *Cash flow hedge*   Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable expected transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statements at the same time the hedged transaction affects the separate consolidated income statements. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statements immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statements.

If hedge accounting is not appropriate, gains or losses arising from the measurement at fair value of derivative financial instruments are directly recognized in the separate consolidated income statements.

SALES OF RECEIVABLES

The TIM Group carries out sales of receivables under factoring contracts. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties,

therefore meeting the requirements of IAS 39 for derecognition. Specific servicing contracts, through which the buyer confers a mandate to TIM S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

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AMOUNTS DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statements when they become known.

INVENTORIES

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

NON-CURRENT ASSETS HELD FOR SALE/DISCONTINUED OPERATIONS

Non-current assets held for sale or disposal groups whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from other assets and liabilities in the consolidated statements of financial position. The corresponding amounts for the previous year are not reclassified in the consolidated statements of financial position but are instead shown separately in a specific column in the changes in assets and liabilities in the year in which the non-current assets held for sale or the disposal groups are classified as such.

An operating asset sold (*Discontinued Operations*) is a component of an entity that has been disposed of or classified as held for sale and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statements, net of tax effects. The corresponding values for the

previous periods, where present, are reclassified and reported separately in the separate consolidated income statements, net of tax effects, for comparative purposes.

Non-current assets held for sale or disposal groups classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and fair value, less costs to sell.

Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statements.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

As required by IFRS 5 (*Non-current assets held for sale and discontinued operations*), an entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

The finance expenses and other expenses attributable to the liabilities of a disposal group classified as held for sale must continue to be recognized.

EMPLOYEE BENEFITS

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to Article 2120 of the Italian Civil Code, is deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations.

The remeasurements of actuarial gains and losses are recognized in other components of the Consolidated Statements of Comprehensive income. Service cost of Italian companies that employ less than 50 employees, as well as interest expenses related to the time value component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate consolidated income statements.

Starting from January 1, 2007, Italian Law gave employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the Company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute. Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan .

Equity compensation plans

The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (for example stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

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

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses ; at the end of each year such liability is measured at fair value.

PROVISIONS

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized in the separate consolidated income statements as Finance expenses .

GOVERNMENT GRANTS

Government grants are recognized when there is a reasonable certainty that they will be received and that the Group will satisfy all the conditions established for their granting by the government, government entities and equivalent local, national or international entities.

Government grants are recognized in the separate income statement, on a straight-line basis, over the periods in which the Group recognizes the expenses that the grants are intended to offset as costs.

Government grants related to assets received for the acquisition and/or construction of non-current tangible assets are recorded as deferred income in the statement of financial position and credited to the separate income statement on a straight-line basis over the useful life of the plants that the grants relate to.

TREASURY SHARES

Treasury shares are recognized as a deduction from equity. In particular, the treasury shares are reported as a deduction from the share capital issued in the amount corresponding to the accounting par value , that is the ratio of total share capital and the number of issued shares, while the excess cost of acquisition over the accounting par value is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

FOREIGN CURRENCY TRANSACTIONS

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

REVENUES

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

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

Revenues from services rendered

Revenues from services rendered are recognized in the separate consolidated income statements according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (in Italy generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.

Revenues from prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for prepaid traffic not yet consumed are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statements of financial position.

Revenues from sales and bundled offerings

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

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For offerings which include the sale of mobile handsets and service contracts, the TIM Group recognizes revenues related to the sale of the handset when the latter is delivered to the final customer, whereas traffic revenues are recorded on the basis of effective consumption; the related subscriber acquisition costs, including sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

A small portion of the offerings of product and service packages in the mobile business consists of contracts with a minimum contractual period between 12 and 36 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

Revenues on construction contracts

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

RESEARCH COSTS AND ADVERTISING EXPENSES

Research costs and advertising expenses are charged directly to the separate consolidated income statements in the year in which they are incurred.

FINANCE INCOME AND EXPENSES

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

DIVIDENDS

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statements in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

INCOME TAX EXPENSE (CURRENT AND DEFERRED)

Income tax expense includes all taxes calculated on the basis of the taxable income of the companies of the Group.

The income tax expense is recognized in the separate consolidated income statements, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax effect is recognized in the relevant equity reserves. In the Statement of comprehensive income, the amount of income tax expense relating to each item included as Other components of the Consolidated Statements of Comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary s undistributed earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

EARNINGS PER SHARE

Basic earnings per ordinary share is calculated by dividing the Group s profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, and excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group s profit attributable to savings shares by the weighted average number of savings shares outstanding during the year.

For diluted earnings per ordinary share, the weighted average number of shares outstanding during the year is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

USE OF ESTIMATES

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and assumptions considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are detailed below.

Financial statement area	Accounting estimates
Goodwill impairment	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .
Impairment of intangible and tangible assets with a finite useful life	At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose.
	Identifying the impairment indicators, estimating the future cash flows and calculating the fair value of each asset requires Management to make significant estimates and assumptions in calculating the discount rate to be used, and the useful life and residual value of the assets. These estimates can have a significant impact on the fair value of the assets and on the amount of any impairment write-downs.
Business combinations	The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.
Capitalization/deferment of costs	The capitalization/deferment of internal and external costs is a process that entails elements of estimation and valuation. Specifically, it involves the valuation of: i) the likelihood that capitalized costs will be recovered through correlated future revenues; and ii) the effective increase in the future economic benefits embodied in the related asset.
Provision for bad debts	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Depreciation and amortization	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing, and thus on the amount of depreciation and amortization expense.
Accruals, contingent liabilities and employee benefits	As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.
	The accruals related to legal, arbitration and fiscal disputes are the result of a complex

	estimation process based upon the probability of an unfavorable outcome. Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	Revenue recognition is influenced by: The estimated expected duration of the relationship with the customer for revenues from telephone service activation (and associated costs). The estimated amount of discounts, reductions and refunds to be set off directly against revenues.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note Supplementary disclosures on financial instruments .

As per IAS 8 (Accounting policies, changes in accounting estimates and errors) paragraph 10, in the absence of a Standard or Interpretation that specifically applies to a transaction, management shall use its judgement in developing and applying an accounting policy that results in consolidated financial statements that represent faithfully the financial position, financial performance and cash flows of the Group, reflect the economic substance of transactions, and are neutral, prudential and complete in all material aspects.

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force as of the financial statements at December 31, 2017.

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Amendments to IAS 12 (*Income Taxes*) Recognition of Deferred Tax Assets for Unrealized Losses

On November 6, 2017, Commission Regulation (EU) 2017/1989 was introduced, adopting at EU level several amendments to IAS 12 (*Income Taxes*) to clarify the recognition of deferred tax assets on unrealized losses from debt instruments measured at fair value.

The adoption of said amendments had no impact on these consolidated financial statements at December 31, 2017.

Amendments to IAS 7 (*Statement of Cash Flows*) - Disclosure Initiative

On November 6, 2017, Commission Regulation (EU) 2017/1990 was introduced, adopting at EU level several amendments to IAS 7 (*Statement of Cash Flows*). The purpose of the amendments is to provide additional disclosures to users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, showing in the reconciliation between the opening and closing balances of those liabilities:

- changes arising from cash flow from financing activities;
- changes arising from the acquisition or from the loss of control of companies or business units;
- the effect of changes in exchange rates;
- changes in fair value; and
- other changes.

The adoption of said amendments had no material impact on these consolidated financial statements at December 31, 2017.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET APPLICABLE

At the date of preparation of these consolidated financial statements, the following new standards and interpretations, which have not yet entered into force, had been issued by the IASB:

	Mandatory application starting from
New Standards and Interpretations endorsed by the EU	
IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2018
Clarifications to IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2018
IFRS 9 (*Financial Instruments*)	1/1/2018
IFRS 16 (*Leases*)	1/1/2019
Improvements to the IFRS (2014 2016 cycle) Amendments to IAS 28	1/1/2018
Amendments to IFRS 2 (Classification and measurement of share-based payments)	1/1/2018
New Standards and Interpretations not yet endorsed by the EU	
IFRIC 22 (Foreign currency transactions and advance consideration)	1/1/2018
Amendments to IAS 40 (*Investment property*)	1/1/2018
IFRIC 23 Uncertainty over income tax treatments	1/1/2019
Amendments to IFRS 9: Prepayment features with negative compensation	1/1/2019
Amendments to IAS 28: Long-term interests in Investments in associates and joint ventures	1/1/2019
Improvements to the IFRS (2015 2017 cycle)	1/1/2019
Amendments to IAS 19: plan amendment, curtailment or settlement	1/1/2019
IFRS 17: Insurance contracts	1/1/2021

The potential impacts on the consolidated financial statements from application of these standards and interpretations are currently being assessed. Specific projects are currently underway at Group level for the adoption of IFRS 15, IFRS 9 and IFRS 16. Accordingly, a reliable estimate of the quantitative effects resulting from the adoption of those standards will only be possible when each project has been completed.

IFRS 15 (Revenue from contracts with customers)

On September 22, 2016, Regulation EU 2016/1905 was issued, which endorsed IFRS 15 (Revenues from contracts with customers) and the related amendments. In addition, on October 31, 2017, Regulation EU 2017/1987 was issued, which endorsed the Clarifications to IFRS 15.

IFRS 15 will replace the standards that currently govern revenue recognition, namely IAS 18 (Revenue), IAS 11 (Construction contracts) and the related interpretations on revenue recognition (IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC 31 Revenue Barter transactions involving advertising services).

IFRS 15 is applied retrospectively starting from January 1, 2018; TIM Group will apply the modified retrospective approach with the cumulative effect of the first-time adoption of the standard as an adjustment to the opening

shareholders equity and leaving the previous comparative periods unchanged.

At TIM Group level, IFRS 15 impacts the revenue recognition of fixed and mobile offerings as well as the recognition of contractual costs. There are no impacts on cash flows. The main differences with respect to the current accounting principles are as follows:

- bundled offerings (package of goods and services): the allocation of the contractual discount to the performance obligations involves an anticipation in the recognition of revenues with the consequent recording of a contract asset;

- activation/installation revenues: under current accounting principles, they are deferred over the expected term of the customer relationship; under IFRS 15, these kinds of revenue, not being related to separate performance obligations, shall be allocated to the various contractual obligations with a consequent anticipation in the recognition of revenue;

- contract costs (costs of obtaining a contract and costs of fulfilling a contract): under current accounting principles, they are already capitalized/deferred and charged to the separate income statement on the basis of the expected term of the customer relationship as well as of the kind of customers.

With the adoption of IFRS 15, this approach will be substantially confirmed. Based on the analyses carried out, however, some impacts are expected, in particular in relation to:

  - definition of kinds of deferrable costs which will be revised in order to exclude costs, if any, that don t meet the requirements of paragraph 97 of IFRS 15;

  - the portion of costs of obtaining a contract that under current accounting standards is capitalized (Intangible assets with a finite useful life) and amortized, under IFRS 15 will be reclassified to prepaid expenses involving lower amortization costs and higher costs for services, without any impact on the shareholders equity and profit (loss) before tax at the transition date.

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TIM Group expects that the adoption of the new standard will have an overall negative net impact on shareholders equity at January 1, 2018 (transition date) arising from the combined effect of:

- recording of the contract asset associated with the early recognition of revenue for bundle offerings and new accounting model of activation/installation revenues with an overall increase in the shareholders equity;
- revision of kinds of deferrable contractual costs with a negative impact on shareholders equity.

The estimates of the impacts on shareholders equity at the transition date are currently being defined.

The process of implementing the new accounting principle involves significant updates and changes on IT systems, modification and updating of control and compliance models and related processes. The impacts are based on the results of the analyses at the date of preparation of these financial statements and may change as the Group has not yet completed the specific project. Furthermore, the impacts at the transition date, which will affect the shareholders equity, are not indicative of future developments, as the business model and the marketing and contractual policies with the customers could change with consequent impacts on revenues and related costs.

IFRS 9 (Financial Instruments)

On November 22, 2016, Regulation EU 2016/2067 was issued, which endorsed IFRS 9 (Financial Instruments), relating to classification, measurement and derecognition of financial assets and liabilities, impairment of financial instruments and hedge accounting.

IFRS 9 is applied starting from January 1, 2018. TIM Group has decided to apply the following options:

- to defer the application of the hedge accounting model under IFRS 9 and to continue the adoption of the IAS 39 model;
- not to restate the comparative periods in the year of initial application of the new standard.

At TIM Group level, IFRS 9 mainly impacts the determination of expected losses on trade receivables and other financial assets (change from the incurred loss model provided for by IAS 39 to the expected credit loss model).

TIM Group expects that the adoption of the new standard will have a non-significant negative impact on shareholders equity at the transition date, mainly due to higher impairment losses on trade receivables and other financial assets.

The estimates of the impacts on shareholders equity at the transition date are currently being defined.

The process of implementing the new accounting principle involves significant updates and changes on IT systems, modification and updating of control and compliance models and related processes. The impacts are based on the results of the analyses at the date of preparation of these financial statements and may change as the Group has not yet completed the specific project. Furthermore, the impacts at the transition date, which will affect the shareholders

equity, are not indicative of future developments, as the business model and the contractual policies could change with consequent impacts on the financial statements.

IFRS 16 (Leases)

On October 31, 2017, Regulation EU 2017/1986 was issued, which endorsed IFRS 16 (Leases). IFRS 16 will replace IAS 17 (Leases) and the related Interpretations (IFRIC 4 Determining whether an arrangement contains a lease; SIC 15 Operating Leases-Incentives; SIC 27 Evaluating the substance of transactions in the legal form of a lease).

For passive lease contracts that meet the requirements of the new standard (which does not distinguish between operating and finance leases), IFRS 16 provides for the recording of a liability in the statement of financial position, equal to the present value of future lease payments, and a correspondent write-of-use asset.

IFRS 16 is applied retrospectively starting from January 1, 2019; TIM Group intends to apply the simplified retrospective approach with the recording, for leases previously classified - under IAS 17 - as operating leases, of the lease liability and the corresponding right-of-use asset measured at the present value of the remaining lease payments at the transition date.

The main impacts on the TIM Group consolidated financial statements, still under evaluation, are detailed as follows:

- statement of financial position: higher non-current assets due to the recording of the right-of-use assets against higher financial lease liabilities;

- separate income statement: different nature, qualification and classification of expenses (amortisation of the right-of-use assets and finance expenses for interest instead of Rent and leases fees for operating leases, as per IAS 17) with a consequent positive impact on gross operating profitability. Furthermore, the combination of the straight-line amortisation of the write-of-use asset and the effective interest rate method applied to the lease payables entail, compared to IAS 17, higher expenses in the income statement in the first years of the lease contract and decreasing costs in the last years.

NOTE 3

SCOPE OF CONSOLIDATION

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

Composition of the Group

TIM holds a majority of the voting rights in all the subsidiaries included in the scope of consolidation.

A complete list of consolidated subsidiaries is provided in the Note List of companies of the TIM Group .

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2017 compared to December 31, 2016 are listed below.

These changes did not have any significant impacts on the Consolidated Financial Statements of the TIM Group at December 31, 2017.

Subsidiaries exiting/merged into the scope of consolidation:

Company		Business Unit	Month
Exit:			
TIERRA ARGENTEA S.A.	Liquidated	Other Operations	May 2017
TELECOM ITALIA FINANCE IRELAND Limited	Liquidated	Other Operations	October 2017
Merger:			
BEIGUA S.r.l.	Merged into Persidera S.p.A.	Domestic	July 2017
TI SPARKLE IRELAND TELECOMMUNICATIONS Limited	Merged into Telecom Italia Sparkle S.p.A.	Domestic	July 2017
OLIVETTI MULTISERVICES S.p.A.	Merged into TIM S.p.A.	Domestic	October 2017
TIM REAL ESTATE S.r.l.		Domestic	October 2017

	Merged into TIM S.p.A.		
TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA	Merged into TI Sparkle Brasil Participações Ltda	Domestic	October 2017

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The breakdown by number of subsidiaries and associates of the TIM Group is as follows:

		12/31/2017	
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line	22	44	66
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	19		19
Total companies	42	44	86

		12/31/2016	
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line	25	48	73
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	19		19
Total companies	45	48	93

Further details are provided in the Note List of companies of the TIM Group .

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2017, the TIM Group held investments in subsidiaries, with significant non-controlling interests, in relation to the TIM Brasil group.

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

Tim Brasil group Brazil Business Unit

Minority interests accounted at December 31, 2017 for 33.4% of the capital of Tim Participações, which in turn holds 100% of the capital of the operating companies Tim Celular S.A. and Tim S.A. (former Intelig Telecomunicações Ltda), coinciding with their corresponding voting rights.

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Financial Position Data Tim Brasil group

(millions of euros)	12/31/2017	12/31/2016
Non-current assets	6,819	7,822
Current assets	1,929	2,956
Total Assets	8,748	10,778
Non-current liabilities	1,703	2,726
Current liabilities	1,852	2,331
Total Liabilities	3,555	5,057
Equity	5,193	5,721
of which Non-controlling interests	*1,556*	*1,705*

Income statement Data Tim Brasil group

(millions of euros)	2017	2016
Revenues	4,502	4,047
Profit (loss) for the year	340	194
of which Non-controlling interests	*114*	*65*

Financial Data Tim Brasil group

In 2017, aggregate cash flows generated a negative amount of 744 million euros, essentially due to a negative exchange rate effect of 146 million euros, without which cash flow would have generated a negative 598 million euros. This included the 257 million euros payment to the consortium that is carrying out the clean up of the 700 MHz spectrum, which the Business Unit purchased the user rights to in 2014.

In 2016, aggregate cash flows generated a positive 58 million euros, due to a positive exchange rate effect of 311 million euros, without which cash flow would have generated a negative 253 million euros.

Lastly, again with reference to the Tim Brasil group and in line with the information given in the Report on Operations Main risks and uncertainties Section, the main risk factors that could, even significantly, restrict the operations of the Tim Brasil group are listed below:

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

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NOTE 4

GOODWILL

Goodwill shows the following breakdown and changes for 2016 and 2017:

(millions of euros)	12/31/2015	Reclassifications	Increase	Decrease	Impairments	Exchange differences	12/31/2016
Domestic	28,447	29	13				28,489
Core Domestic	28,035	29	13				28,077
International Wholesale	412						412
Brazil	907					216	1,123
Media	29	(29)					
Other Operations							
Total	29,383		13			216	29,612

(millions of euros)	12/31/2016	Reclassifications	Increase	Decrease	Impairments	Exchange differences	12/31/2017
Domestic	28,489						28,489
Core Domestic	28,077						28,077
International Wholesale	412						412
Brazil	1,123					(150)	973
Other Operations							
Total	29,612					(150)	29,462

With regard to the acquisition of the company Noverca S.r.l. in October 2016, the goodwill provisionally recognized in 2016, amounting to 5 million euros, was confirmed following the completion of the price allocation process required by IFRS 3.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the Cash Generating Units CGUs) to December 31, 2017 and 2016 can be summarized as follows:

(millions of euros)	12/31/2017 Gross carrying amount	Accumulated impairment losses	Net carrying amount	12/31/2016 Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	42,457	(13,968)	28,489	42,457	(13,968)	28,489
Core Domestic	42,045	(13,968)	28,077	42,045	(13,968)	28,077
International Wholesale	412		412	412		412
Brazil	1,204	(231)	973	1,389	(266)	1,123
Other Operations						
Total	43,661	(14,199)	29,462	43,846	(14,234)	29,612

The figures for the Brazil CGU are stated in euros, converted at the spot exchange rate at the closing date of the financial statements; the carrying amount of goodwill for the CGU corresponds to 3,854 million reais.

Goodwill is not subject to amortization, but it is tested for impairment at least annually. Accordingly, in preparing the 2017 Annual Report, the TIM Group conducted impairment tests on the recoverability of the goodwill, in accordance with the procedure adopted by the Group. The results showed that the recoverable amount of the assets at December 31, 2017 was higher than the net carrying amount for all the CGUs.

Recoverability testing was conducted at two levels: at the first level, the recoverable amount was estimated for the assets assigned to the individual cash generating units to which goodwill is allocated; at the second level, the assets of the Group as a whole were considered.

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With regard to the first level test, goodwill was allocated to the following cash generating units (or groups of units):

Segment	Cash Generating Units (or groups of units)
Domestic	Core Domestic
	International Wholesale
Brazil	Tim Brasil

To measure the recoverable amount, value in use was used for the Core Domestic and International Wholesale CGUs, whereas for the Brazil CGU, fair value was used, based on market capitalization at the end of the reporting period.

The values used were expressed in the local currency, and hence in EUR for the Core Domestic and International Wholesale CGUs and BRL for the Brazil CGU. For the Brazil CGU, the recoverable amount of the assets was denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.

Value in use estimates were made, in accordance with IAS 36 and with valuation principles and best practices, based on the expected cash flows in different scenarios. The various expected cash flows were then summarized into an average normal cash flow, determined with the aid of Experts (expert appraisers and industry experts) and based on the data from the 2018-2020 Industrial Plan approved by the Board of Directors. For the International Wholesale CGU, given that no additional risk factors are envisaged, the average expected cash flows coincided with Industrial Plan figures.

For the Core Domestic CGU, expected average cash flows were measured for the three years of the 2018-2020 Industrial Plan, plus an additional two years on the basis of extrapolated data, for which future cash flows were explicitly forecast for a period of five years (2018-2022). The extrapolation of data for 2021-2022 enabled market and competition trends that will become manifest beyond the time horizon of the 2018-2020 Industrial Plan to be captured.

For the estimate of the terminal value, the sustainable long-term cash flow was assumed to be the extrapolation of the estimated cash flow at 2022, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure.

The Industrial Plan (2018-2020) incorporates valuations of risk factors and the actions adopted to mitigate them. In estimating future cash flows for the purposes of impairment testing, management, in collaboration with the Experts, decided to give a greater weighting to external data available and conduct additional challenges on specific risk factors by modifying the amount and/or distribution over time of future cash flows.

The cost of capital used to discount the future cash flows for estimating the value in use of the Core Domestic and International Wholesale CGUs was determined as follows:

- it was estimated using the Capital Asset Pricing Model (CAPM), which is one of the generally accepted application criteria referred to in IAS 36;

- it reflects the current market estimates of the time value of money and the specific risks of the groups of assets; it includes appropriate yield premiums for country risk and the risk associated with the depreciation of the currency

of denomination of the cash flows;

it was calculated using comparative market parameters to estimate the *Beta coefficient* and the weighting coefficient of the equity and debt capital components.

Details are provided below, for each CGU, of the weighted average cost of capital (WACC rate) used to discount the future cash flows, and the equivalent rate before tax.

Details are also provided of the growth rates used to estimate the residual value after the explicit forecast period (the G-Rates), expressed in nominal terms and related to the cash flows in their functional currency. Lastly, details are provided of the implicit capitalization rates, for each CGU, resulting from the difference between the cost of capital, after tax, and the G-Rate.

PRINCIPAL PARAMETERS FOR THE ESTIMATES OF VALUE IN USE

	Core Domestic	International Wholesale
WACC	6.39%	6.39%
WACC before tax	8.52%	8.31%
Growth rate beyond the explicit period (g)	0.5%	0.5%
Capitalization rate (WACC-g)	8.02%	7.81%
Capex/Revenues, % perpetual	19.26%	5.86%

The growth rates of the terminal value g of the Domestic segment were estimated taking into account the expected outlook during the explicit forecast period and are consistent with the range of growth rates applied by analysts who monitor TIM shares.

Separate parameters for the various CGUs were also used to estimate the level of capital expenditure required to sustain the perpetual generation of cash flows after the explicit forecast period, according to the phase of capital expenditure, competitive positioning and the technological infrastructure operated.

The difference between the recoverable amounts and the net carrying amounts of the CGUs considered totaled:

(millions of euros)	Core Domestic	International Wholesale	Brazil
Difference between values in use and net carrying amounts	+4,465	+56	+2,552

In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. Details are provided below of the variables which, considered separately and taking the others as constant, are needed to make the recoverable amount of the respective CGUs equal to their net carrying amount.

PARAMETERS THAT MAKE THE VALUE IN USE EQUAL TO THE CARRYING AMOUNT

	Core Domestic	International Wholesale	Brazil

WACC before tax	9.26%	8.70%	
Capitalization rate (WACC-g)	8.76%	8.20%	
Capex/Revenues, % perpetual	23.08%	6.34%	
Percentage change in the stock market price			-32%

In addition to average normal cash flows, to take into account the market operator s perspective, sensitivity analyses were conducted on the risk factors identified with the Experts to determine the value in use of the Core Domestic CGU. The sensitivity analyses found that the recoverable amount was higher than the net carrying amount.

With regard to value testing at overall Group level, the sum of the recoverable amounts of all the CGUs was compared against the carrying amount of the net operating assets in the consolidated financial statements, after appropriate adjustments to take account of the cash flows of Central Functions not allocated to any CGU. No impairment losses were recorded at this additional level of impairment testing.

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NOTE 5

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life increased by 241 million euros compared to December 31, 2016. The breakdown and movements are as follows:

(millions of euros)	12/31/2015	Additions	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2016
Industrial patents and intellectual property rights	2,070	990	(1,243)			206		435	2,458
Concessions, licenses, trademarks and similar rights	2,829	87	(393)			89		242	2,854
Other intangible assets	83	128	(107)			5			109
Work in progress and advance payments	1,498	436			(2)	198	73	(673)	1,530
Total	6,480	1,641	(1,743)		(2)	498	73	4	6,951

(millions of euros)	12/31/2016	Additions	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2017
Industrial patents and intellectual property rights	2,458	771	(1,263)			(147)		374	2,193
Concessions, licenses, trademarks and similar rights	2,854	140	(396)			(96)		248	2,750
Other intangible assets	109	157	(134)			(5)		7	134
Work in progress and advance payments	1,530	1,224		(30)		(143)	73	(539)	2,115
Total	6,951	2,292	(1,793)	(30)		(391)	73	90	7,192

Additions in 2017 included 272 million euros of internally generated assets (289 million euros in 2016). Further details are provided in the Note Internally generated assets .

Industrial patents and intellectual property rights at December 31, 2017 consisted mainly of application software purchased outright and user licenses acquired, amortized over a period between 2 and 5 years. They mainly related to TIM S.p.A. (1,223 million euros) and to the Brazil Business Unit (944 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2017 mainly related to:

- the remaining cost of telephone licenses and similar rights (1,689 million euros for TIM S.p.A., 464 million euros for the Brazil Business Unit),

- Indefeasible Rights of Use - IRU (393 million euros), mainly relating to companies of the Telecom Italia Sparkle group - International Wholesale (290 million euros) and the Parent (103 million euros);

- TV frequencies of the company Persidera in the Core Domestic segment (111 million euros). The user licenses for the frequencies used for digital terrestrial transmission will expire in 2032.

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The net carrying amount of telephone licenses and similar rights (2,153 million euros) and their useful lives are detailed below:

Type	Net carrying amount at 12/31/2017 (millions of euros)	Useful life (years)	Amortization expense for 2017 (millions of euros)
TIM S.p.A.:			
UMTS	537	18	134
UMTS 2100 MHz	30	12	7
WiMax	5	15	1
LTE 1800 MHz	103	18	9
LTE 800 MHz	720	17	60
LTE 2600 MHz	79	17	7
GSM (extension)	17	3	34
1452-1492 MHz band	198	14	16
Tim Brasil group:			
GSM and 3G (UMTS)	165	15	53
4G (LTE - 700 MHz)	299	15	15

Other intangible assets at December 31, 2017 essentially consisted of capitalized mobile subscriber acquisition costs (SACs) of 110 million euros (78 million euros for the Parent and 32 million euros for the Brazil Business Unit), mainly related to commissions for the sales network, for a number of commercial deals that lock in customers for a set period. Subscriber acquisition costs are amortized over the underlying minimum contract period (between 12 or 36 months).

Work in progress and advance payments increased by 585 million euros. This item included the advance payment by TIM S.p.A. of 630 million euros for the extension of the user rights to the 900 MHz and 1800 MHz (GSM) bands, which will take effect from July 1, 2018 to December 31, 2029.

As reported, this item included a part of the user rights for the 700 MHz frequencies acquired in 2014 by the Tim Brasil group for a total of 2.9 billion reais (equal to around 1 billion euros). In 2017 part of the user rights, amounting to 251 million euros, came into operation and was consequently reclassified under the item Concessions, licenses, trademarks and similar rights .

Since more than 12 months are needed before the user rights can be used, the finance expenses directly attributable to rights have been capitalized since 2014. In 2017, the capitalized finance expenses totaled 73 million euros, at an

annual interest rate of 9.48%. Expenses capitalized were deducted directly in the income statement from Finance expenses - Interest expenses to banks .

Finally, write-downs of software development projects that were discontinued by the Parent amounted to 30 million euros.

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

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2017 and 2016 can be summarized as follows:

	12/31/2016			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	12,241	(7)	(9,776)	2,458
Concessions, licenses, trademarks and similar rights	7,017	(306)	(3,857)	2,854
Other intangible assets	447		(338)	109
Work in progress and advance payments	1,532	(2)		1,530
Total intangible assets with a finite useful life	21,237	(315)	(13,971)	6,951

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	12,266	(7)	(10,066)	2,193
Concessions, licenses, trademarks and similar rights	7,044	(273)	(4,021)	2,750
Other intangible assets	522		(388)	134
Work in progress and advance payments	2,145	(30)		2,115